Italian politics
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Can counter trade outlive communism?
Separate section

FINANCIAL TIMES

Europe's Business Newspaper — THURSDAY JANUARY 27 1994

Student charged with firing blanks at Prince Charles

Prince Charles's personal bodyguard Colin Trimming steers the Prince to one side after a young man charged towards him and fired two blank shots with a starting pistol shortly before an Australia Day ceremony in Sydney. He was unharmed and immediately resumed his address after police and security men hustled away the suspect. Police later charged David Kang, 23, with six offences relating to the incident. Police said Kang wrote to the Prince last month protesting about the treatment of Cambodian boat people being held in detention camps in Australia.

Hosokawa digs in: Japan's prime minister Morihiro Hosokawa said he plans to fight on in office even if parliament does not pass measures to reform the country's scandal-ridden political system by Saturday. Page 18

'10 dead' in supermarket accident: Ten people were believed killed and at least 90 injured when the roof of a supermarket collapsed in the French Riviera city of Nice.

Steel tube groups merger: French, German and Italian steel tube companies won approval to merge after the European Commission overturned a recommendation that the deal be blocked because it could be anti-competitive. Page 18; *Strength of ambition fuels steel group, Page 21*

Brussels warning over Bull cash: The French government was warned by the European Commission that it could face action in the European Court of Justice unless it froze a FFr2.5bn ($420m) capital injection for Groupe Bull, the loss-making computer group. Page 18

Compaq Computer, which aims to become the world's largest personal computer maker by the end of next year, more than doubled year-end net income to $462m amid "unprecedented demand" for its products. Page 19

Clinton bullish on budget deficit: Next year's US budget deficit will be less than $180bn, President Bill Clinton predicted in his State of the Union address, compared with the $300bn many analysts were forecasting when he took office last year. Page 5

Hussein ready to meet Rabin: King Hussein of Jordan said for the first time he was willing to meet Israeli prime minister Yitzhak Rabin in a move that could bolster the Mideast peace process. Page 4

Philip Morris, US cigarette, food and beer group, saw fourth-quarter net profits slump to $339m following the cut in the price of Marlboro cigarettes and a heavy restructuring charge. Page 19

German inflation down: Germany's annual inflation rate fell to 3.4 per cent in the month to mid-January. The Bundesbank called the better-than-expected figure "good news". Page 2

Canada's smugglers force tax cut pledge: Canada's federal government and the Quebec provincial government promised to cut and maybe abolish the high taxes widely blamed for a surge in cigarette smuggling. Page 5

Metallgesellschaft concern over US arm: Fresh evidence has emerged that the Metallgesellschaft supervisory board was uneasy about the activities of the group's US subsidiaries months before difficulties at its New York trading arm drove the group to the brink of collapse. Page 19

Indian pit blast: At least 55 miners were feared killed after an explosion and fire at the Newkenda coal mine, about 250km north of Calcutta, India.

Romania warms to Nato: Romania signed a partnership document with Nato and said it wanted to become a full member of the western military alliance.

Musical frontiers extended: Classic FM, a UK commercial classical music radio station launched in 1992, plans to provide a service to all of Europe. Page 6

STOCK MARKET INDICES

FT-SE 100:	3,436.1	(-7.9)
Yield	3.43	
FT-SE Eurotrack 100	1,490.98	(+5.88)
FT-SE-A All-Share	1,724.56	(-0.2%)
Nikkei	19,138.21	(+489.85)
New York: lunchtime		
Dow Jones Ind Ave	3,907.44	(+12.1)
S&P Composite	473.18	(+2.18)

US LUNCHTIME RATES

Federal Funds:	3⅛%
3-mo Treas Bills: Yld	2.972%
Long Bond	98⅞
Yield	6.332%

LONDON MONEY

3-mo Interbank	5⅛%	(Same)
Liffe long gilt future	Mar 119⅛	(Mar 119⅝)

NORTH SEA OIL (Argus)

Brent 15-day (Mar)	$14.31	(14.14)

Gold

New York Comex (Feb)	$384.8	(381.6)
London	$383.55	(382.3)

STERLING

New York lunchtime:		
$	1.493	
London:		
$	1.4926	(1.494)
DM	2.6089	(2.6187)
FFr	8.8534	(8.8759)
SFr	2.1976	(2.1955)
Y	164.807	(166.066)
£ Index	82.4	(82.6)

DOLLAR

New York lunchtime:		
DM	1.74715	
FFr	5.932	
SFr	1.472	
Y	110.05	
London:		
DM	1.748	(1.7528)
FFr	5.9317	(5.941)
SFr	1.4724	(1.4695)
Y	110.42	(111.155)
$ Index	67.3	(67.5)

Tokyo close Y 110.24

Austria	Sch32	Greece	Dr350	Lux	LFr65	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lw25.00	Iceland	IKr215	Neth	Fl 4.00	Slovak Rp	KSL50
Cyprus	C£1.10	India	Rs30	Nigeria	Naira50	South Africa	R12.00
Czech Rp	CZK50	Israel	Shk8.90	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Finland	FM14	Jordan	JD1.50	Philippines	Peso50	Syria	S£50.00
France	FFr9.00	Kuwait	Fils625	Poland	Zl 32,000	Tunisia	Din1.500
Germany	DM3.50	Lebanon	US$1.50	Portugal	Es225	Turkey	L10000
						UAE	Dh12.00

Finance minister warns of 'economic coup' headed by Chernomyrdin

Yeltsin bows to hardliners as Fyodorov quits post

By Leyla Boulton in Moscow and Peter Norman in London

President Boris Yeltsin appeared yesterday to opt for an inflationary economic policy to appease a parliament dominated by communist and ultra-nationalists by accepting the departure of his reformist finance minister.

Mr Boris Fyodorov resigned with a warning that an "economic coup had taken place" headed by Mr Victor Chernomyrdin, the Russian prime minister, which would plunge the country into disaster.

Mr Fyodorov said he was quitting after a half-hour meeting with Mr Yeltsin, who reportedly told him, "You cannot leave at a time like this and throw everything away". But he made no effort to meet any of his conditions for staying.

The new acting finance minister will be Mr Sergei Dubinin, presently a deputy finance minister, who is unlikely to fight for his reformist views with the same energy as Mr Fyodorov.

Mr Yeltsin's decision comes shortly before an International Monetary Fund mission is due in Moscow to examine economic reform prospects.

The latest stage in the battle over Russian economic policy could further undermine the west's readiness to step up financial support for Russian reform.

Finance ministers from the Group of Seven leading industrial countries are expected next month to discuss the economic crisis and political upheaval.

Mr Theo Waigel, the German finance minister, has invited his colleagues from the US, Japan, France, Britain, Italy and Canada to a meeting in the Schloss Hotel at Kronberg, north of Frankfurt.

The German minister has proposed that the meeting should be held on February 26 and that Mr Michel Camdessus, managing director of the IMF, should attend. The ministers want to meet Mr Alexander Shokhin, the middle-of-the-road reformer who last week was made economics minister, after the G7 talks.

Mr Fyodorov said an inevitable rise in inflation, a fall in living standards and a continuing drop in output would demonstrate there was no alternative to the policies he had embraced. He also warned that "a dead end reached at the people's expense" could trigger a social explosion.

He said: "Having in the cabinet people who have caused the country colossal political and economic harm and are opposed to reform is unacceptable."

Mr Fyodorov told the Financial Times his main reason for leaving was President Yeltsin's refusal to fire Mr Victor Gerashchenko, the central bank chairman, whom he accused of undermining his attempts to institute fiscal discipline and a tight monetary policy. "This was a must. If I tightened [spending] in the government, they would go to Gerashchenko [for money]."

Mr Yeltsin refused to offer Mr Fyodorov a promotion to first deputy prime minister, meaning he would be placed beneath Mr Alexander Zaveriukha, the pro-Communist deputy prime minister for agriculture whose departure Mr Fyodorov had demanded.

In a final plea to the president issued after his resignation, Mr Fyodorov said: "We are witnessing an economic coup and a reversal of reforms. You are our only hope."

Utility to sell stake, Page 2

Associated Press

Vladimir Zhirinovsky, leader of Russia's rightwing Liberal Democratic party, responds to critics at a press conference in Moscow yesterday. Mr Zhirinovksy faces prosecution on charges of "warmongering"

Germany plans freer gas and electricity market

By Quentin Peel in Bonn

The German government is drawing up legislation to open the country's highly regulated market for electricity and gas.

A draft law which would allow access to the energy supply grids will be presented to the cabinet before Easter, Mr Günter Rexrodt, the economics minister, said yesterday.

The move would allow domestic and foreign competitors to take on the main energy utilities including RWE, Veba's PreussenElektra and Bayernwerk, as well as Ruhrgas, the country's leading gas importer and distributor.

It is likely to be fiercely resisted by the big utilities, the local authorities which are their leading shareholders, and by the trade unions and opposition Social Democrats because of worries about job security and the quality of services.

Mr Rexrodt insisted yesterday the change had the backing of the ruling coalition in Bonn, and he was determined to make it law before the next election. It is part of the government's programme to create jobs and stimulate growth, approved last week by the coalition partners and yesterday in cabinet.

"I know this is stirring up a hornet's nest," he said. "We will face a united front of opposition. But we have the consumers supporting us, for whom electricity and gas in Germany have been too expensive for far too long."

The new law will outlaw agreements between the utilities which set demarcation lines between their operations, with each supplying all energy demand in their own areas. Instead, it will give transmission rights to other gas and electricity suppliers, allowing them access to the national and regional grids.

Mr Johann Eekhoff, the state secretary for economics, said the intention was to open up competition in the German market before the European Union allowed cross-border energy supplies from 1998. Germany would

Continued on Page 18
German inflation fall beats forecasts, Page 2

Berlusconi quits business to enter politics

By Robert Graham in Rome

Mr Silvio Berlusconi, the media magnate, abandoned his position as chairman of Italy's third-largest private business empire yesterday in favour of an uncertain career as head of a new political grouping, Forza Italia – "Come on, Italy" – to fight a general election in March.

It is the first time in recent years that such a prominent business figure has switched from business to politics in any European democracy. Mr Berlusconi said he was entering politics "because I don't want to live in an illiberal country run by immature people linked to the political and economic failures of the past".

The announcement was made in a video message sent to television stations controlled by his Fininvest group and those of state-run television. State television was last night resisting pressure from him to run either the full eight-minute version of his announcement or a four-minute version on the ground that it was unsolicited political propaganda.

Mr Berlusconi's entry into politics has been an on-off affair since last December. Until now he has been holding back, in part because he threatens to split the centre-right vote even more.

His principal enemy, the former communist party of the Democratic Left (PDS), said Mr Berlusconi could not easily distance himself from his media interests and there were clear conflicts. Indeed, Fininvest made clear that Mr Berlusconi's ownership would remain unchanged. He was simply abandoning any management role.

Fininvest controls more than 80 per cent of Italy's commercial television networks, as well as two newspapers and magazines.

His move also raises questions about the financial health of Fininvest, whose profit figures in recent days analysts have begun to question. Its 1992 profit was L21bn ($12.3m) in the published accounts with debt at L4,500bn, 43 per cent of turnover. Part of his empire, Silvio Berlusconi Enterprises, has been due to be floated to raise money.

Of Forza Italia, Mr Berlusconi said of his grouping yesterday: "It won't be the traditional faction-ridden grouping. On the contrary it will have the opposite aim – of uniting people to give Italy the majority and government the country needs and deserves . . . We want to renovate Italian society."

Mercedes faces third loss at truck division

By Kevin Done, Motor Industry Correspondent, in Stuttgart

The commercial vehicle operations of Mercedes-Benz, the world's leading truck maker, will suffer a third successive annual loss in 1994, Mr Helmut Werner, chief executive, warned yesterday.

The car division, which also suffered an operating loss in 1993, was expected to return to profit, however, helped by a forecast 12 per cent increase in sales to 570,000.

Mr Werner said Mercedes, the automotive subsidiary of Daimler-Benz, had embarked on a "radical rethinking" of its production structure and would increase the share of its car production outside Germany to 10 per cent in the medium-term from 2 per cent at present. Production would rise in countries such as the US, Mexico, South Korea and India. Mercedes expected shortly to sign a deal with Tata, the Indian vehicle maker, to assemble up to 15,000 E-Class cars a year from 1995.

The company would also cut the level of in-house manufacturing from 45 per cent at present to below 40 per cent by 1998, making greater use of outside components suppliers.

Mr Werner said Mercedes planned to enter more co-operative ventures with other vehicle makers and suppliers. It was also seeking a significant increase in productivity, not only in labour but also in capital and organisation. Capital spending was being cut to DM18.7bn ($10.6bn) in the five years from 1994 to 1998 from the DM21bn previously planned for 1993 to 1997.

Turnover was forecast to rise by 5 per cent this year to DM68bn following a 3 per cent fall last year to DM64.6bn. Daimler-Benz, of which Mercedes accounts for about two-thirds of group turnover, made a loss of DM2bn in the first nine months of 1993 under US accounting rules.

"We shall be able to achieve more with our available funds than in the past," Mr Werner said. "High investment expenditure is not always a sign of efficient performance."

Capital productivity had fallen steadily in recent years leading to "a dramatic increase in depreciation", he said. "We have to deploy our investment more efficiently." The company had cut costs by DM4bn in 1993, and planned to close the cost gap with Japanese producers by 1998.

Mercedes planned to cut its domestic workforce by a further 8,000 jobs this year to 151,000 by the end of 1994. Passenger vehicle production – cars and four wheel drive vehicles – was forecast to jump to 850,000-900,000 by 1998 with the addition of new ranges.

US pledges Patriots for South Korea

By John Burton in Seoul

The US is to send Patriot air defence missiles to South Korea to protect against any surprise missile attack from North Korea.

Confirmation of the move in Washington yesterday by Mr Frank Wisner, defence under-secretary, followed strong indications from South Korean foreign ministry officials that the deployment would go ahead.

The discussions between Washington and Seoul reflect increased concern about tension on the Korean peninsula after North Korea's refusal to allow international inspections of its nuclear facilities.

"The threat of North Korean missiles is very real," said Mr Hong Soon-young, South Korea's vice-foreign minister.

North Korea last year tested the Rodong-1, an improved variant of the Soviet Scud missile with an estimated range of 1,000km.

The stationing of Patriot missiles would be the first publicly announced strengthening of US forces in South Korea since North Korea blocked nuclear inspections a year ago.

The South Korean defence ministry said last week there was a risk of a North Korean

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Ahern delivers on tax promise

By Tim Coone in Dublin

Mr Bertie Ahern, the Irish finance minister, has delivered on his promise to accelerate tax reform and give a boost to domestic demand in his 1994 budget unveiled yesterday.

Hailed in advance as a "budget for jobs", Mr Ahern has focused his new measures on easing the tax burden for the lower paid, by a substantial widening of the standard rate tax band, eliminating a 1 per cent income levy, reducing employers' and employees' national insurance contributions and increasing personal income tax allowances.

The effect of these reliefs will be to increase disposable income at the lower end of the income scale by I£333m ($478m), equivalent to 1.1 per cent of GNP. Overall private sector consumption is estimated to grow by 4 per cent in 1994. This should boost consumer and business confidence, especially in those industries manufacturing mainly for the domestic market and which have experienced the heaviest job losses over the past three years.

Although the Irish economy has one of the best performing economies in the EU, exhibiting growth averaging 5 per cent since 1987, a low fiscal deficit and low inflation, these successes have not stemmed the rising tide of unemployment, which now stands at 18.4 per cent of the workforce – almost twice the EC average. This budget, although unlikely to make a dramatic impact on the jobless figure, should nonetheless help to reverse the trend without fuelling inflationary fears.

Mr Ahern said the budget is aimed at creating "faster sustainable economic and employment growth" which would keep government borrowing "comfortably below 3 per cent of GNP". Inflation is "unlikely to exceed 2.5 per cent" in 1994, compared to 1.5 per cent in 1993, he said.

GNP growth in 1994 is projected at 3.75 per cent. He said capital spending is set to grow by 7.3 per cent, while construction-related spending is budgeted to grow by 9 per cent.

Mr Ahern has partially offset the expansionary effects of the budget, by increasing excise duties on beer, tobacco and spirits, and shifting some of the tax burden to middle and higher income groups, and reducing a range of discretionary tax reliefs. Property taxes are also to increase. The net effect of the measures will result in a cost to the exchequer of I£162m.

Government borrowing is targeted at I£798m in 1994, or 2.7 per cent of GNP, only 0.2 percentage points higher than in 1993. This will be reassuring news for the financial markets looking out for signs of any slackening of fiscal discipline which could have adverse implications for inflation and the exchange rate.

Opposition leaders, however, were critical of Mr Ahern for not going further with tax reforms. Mr Ivan Yates, the spokesman for the Fine Gael party, described the budget as "modest, conservative and unimaginative". Mr Mike Allen, head of Ireland's National Organisation of the Unemployed, said the budget was "good from the point of view of business, but we remain to be convinced that it will produce the jobs it promised". The government's own projections are for unemployment to fall only 5,000 to 289,000.

Andrew Hill examines the policy significance of the go-ahead given to a controversial steel-tube joint venture

Van Miert equal to the competition despite defeat

The European Commission's decision yesterday not to block a three-way joint venture between French, German and Italian steel-tube manufacturers is a small blow to the pride of Mr Karel Van Miert, the competition commissioner.

It is the Belgian socialist's first defeat on a proposal to the Commission since he took over the job from the UK's Sir Leon Brittan a year ago.

The setback has again raised the question among competition policy purists of whether Mr Van Miert is fighting his corner as fiercely as Sir Leon used to.

Mr Van Miert did back his officials' case against the steel-tube venture – based on the supposition that it would have created an anti-competitive "duopoly" in the EU market – although he was said to have had some initial doubts about the argument. However, as one respected Brussels competition lawyer put it yesterday: "I think he's basically conscientious and balanced, but Leon Brittan would have been able to get it through."

Evidence from the same Commission meeting and Mr Van Miert's 12 months in the job suggests that such an analysis is too harsh. Yesterday, commissioners also approved, without discussion, a tough line towards French government subsidies to Bull, the computer group, and endorsed Mr Van Miert's move to open an investigation into aid for the Klöckner steel mill in the German state of Bremen.

Indeed, Mr Van Miert seems to be proving more than equal to tackling state subsidies – the area he has identified as his greatest challenge when he took over the job.

He set the tone at a conference organised by French public-sector companies a year ago: directors of France's largest utilities heaped praise on "Mon cher Karel" and addressed him informally as "tu"; Mr Van Miert chose to address them throughout with the polite French "vous".

Since then, he has shown particular grit in persuading governments to agree unanimously to subsidy cuts in the sensitive steel sector, although he admits the December decision was an unsatisfactory compromise. Moreover, observers believe Mr Van Miert's style – more emollient and less confrontational than Sir Leon's – probably helped persuade suspicious fellow commissioners to agree controversial plans last year for further liberalisation of the telecommunications sector.

Mr Claus-Dieter Ehlermann, who has headed the Commission's competition policy directorate under Sir Leon and Mr Van Miert, says such liberalisation programmes will reinforce the importance of his department's policy over the next few years. In particular, the internal market and the Commission's plans for trans-European networks – large infrastructure projects in telecoms, information technology, energy and transport sectors – would be undermined if Brussels abandoned a strong competition policy. "The existence of trans-European networks presupposes that the goods which are transported on them circulate freely," he points out.

Certainly, competition policy remains the staple dish on the commissioners' weekly menu of decisions.

Even when new legislative proposals are thin on the ground – as has been the case over the past two years – the volume of competition decisions rarely flags. For example, under Mr Van Miert the Commission last year took 58 merger decisions, compared with 60 the previous year under Sir Leon. Some 435 state aid cases were decided, against 502 in 1992, with roughly the same proportion of positive and negative decisions under both regimes.

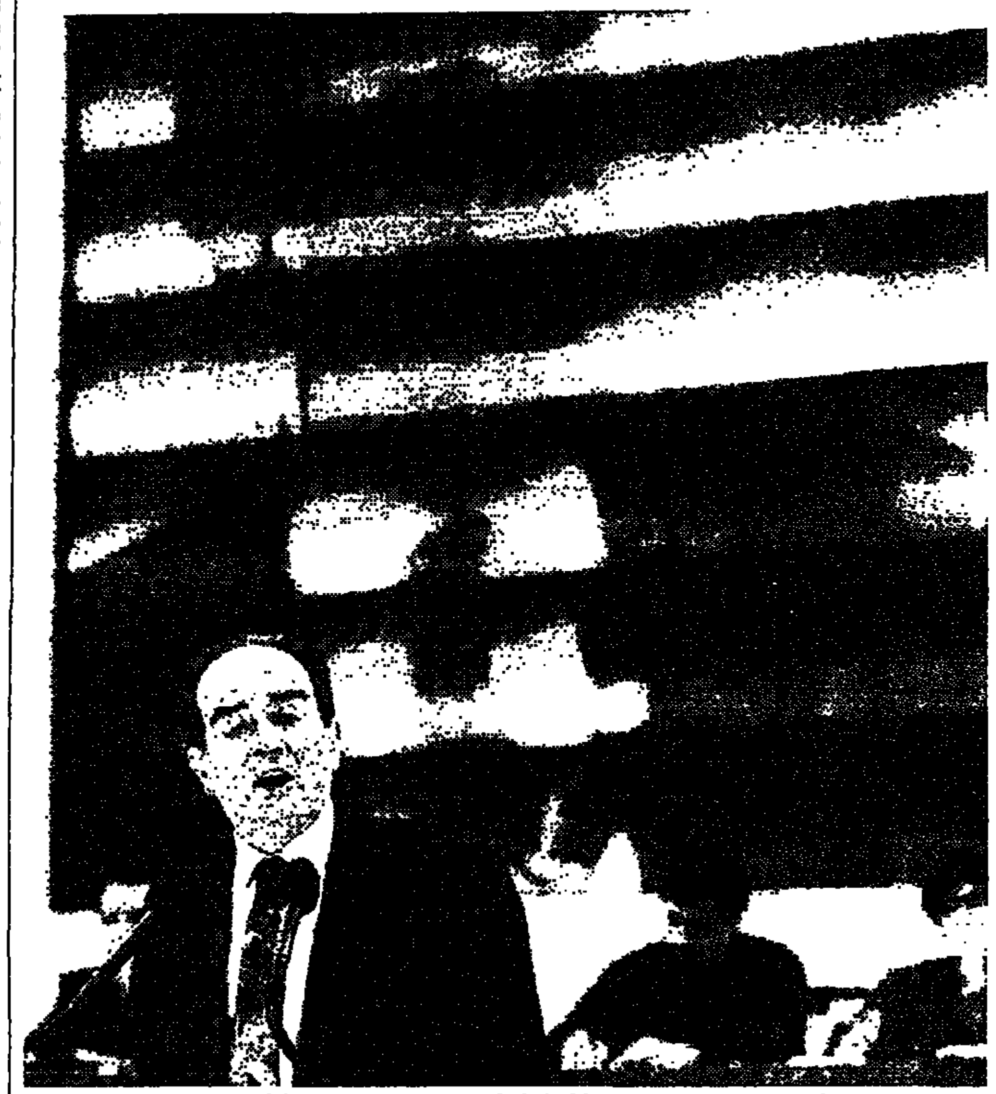
In fact, the same questions are raised by competition specialists now, as used to be raised when Sir Leon Brittan was in charge of the dossier.

Brussels-based competition lawyers agree that yesterday's steel-tubes decision is a setback for officials in the Commission's merger task force.

Had the joint venture been blocked it would have been only the second deal to be outlawed in the three-year history of the EU's merger regulation. It would also have established an important legal precedent, by allowing the Commission to take potential duopolies into account when examining the implications of mergers and joint ventures, even when the companies involved had no structural links.

But for Mr Van Miert, the decision amounts simply to further evidence that even the best-argued recommendation on competition policy is still subject to the vagaries of a political decision by 17 commissioners.

In that respect, nothing has changed since the days of Sir Leon, and, as lawyers point out, nothing will change unless Brussels decides to take the great leap towards the establishment of an independent European competition authority.



Veteran French communist leader Georges Marchais in his retirement speech to the party congress yesterday admitted his 22 years had been a bitter period of errors and decline – but said better times lay ahead if the party stood by its ideals Associated Press

Fall in German inflation renews interest rate calls

By Christopher Parkes in Frankfurt and Quentin Peel in Bonn

The annual inflation rate in Germany fell to 3.4 per cent in the month to mid-January, in spite of New Year increases in fuel and vehicle taxes, pensions and insurance contributions, according to provisional figures from the federal statistics office.

The rate compares with 3.7 per cent in the previous month, and was lower than expected by most economists.

While the latest figure was welcomed as "good news" for the German Bundesbank, few analysts expect that it will be enough to justify a cut in short-term interest rates at next Thursday's central bank meeting.

It does suggest, however, that Germany is in line for an average inflation rate of below 3 per cent for 1994 as a whole, as forecast by the government's annual economic report, published yesterday.

Confirmation of the rest of the government's forecasts, including a growth rate for gross domestic product of between 1.0 and 1.5 per cent, brought a sceptical response from both German industry, and the opposition Social Democrats (SPD).

Only on its gloomy outlook for unemployment, suggesting an increase of up to 450,000 in the number of jobless, to around 3.9m, a national rate of around 10 per cent, is there general agreement.

The government figures were presented by Mr Günter Rexrodt, the economics minister, who insisted that they were sober and realistic. He said that although the latest increase in fuel prices and insurance payments might cause a temporary setback in the first quarter, the west German economy had clearly begun to recover from last year's sharp downturn.

The German federation of industry said it would be "delighted" if the government's forecast proved correct, but insisted that there was still no evidence to confirm it. The BDI said that with the exception of exports, all the main components in economic demand – private consumption, state consumption and private and public investments – were less favourable in its own calculations.

Mr Uwe Jens, the economics spokesman for the SPD, called for rapid and clear moves by the Bundesbank to reduce its lead interest rates.

However, recent speeches and statements by top bank officials have made it clear that further interest rate cuts depend mostly on further moderation in money supply. The bank sees the broad M3 measure of monetary growth, which expanded above target last year, as an early warning system for future inflation.

Mr Johann Wilhelm Gaddum, the Bundesbank vice-president, said on Tuesday: "We will make further interest rate reductions when the data – especially money supply – develop according to our targets."

December M3 figures, due next week, are expected to be well above the 6.5 per cent upper target limit for 1993, due to "distortions by special factors", according to Mr Otmar Issing, a member of the bank directorate.

But in an interview with the Börsen-Zeitung newspaper, he held out the prospect of a marked improvement in the January figures.

GERMAN ECONOMIC FORECASTS
(real %age change year-on-year)

	1993*			1994		
	West	East	All	West	East	All
GDP	-1.9	6.3	-1.3	0.5 – 1	6 – 8	1 – 1.5
Private consumption	-0.2	1.2	-0.1	0 – -1	0 – 1	0 – -1.0
State consumption	-1.3	2.6	-0.7	0 – -1	-1 – -2	0 – -1.0
Capital investment	-6.8	15.0	-3.3	0 – 1	12 – 14	2 – 4
Exports	-7.3	-1.9	-11.1	3 – 4	6 – 8	3 – 4
Imports	-10.8	3.6	-11.3	1.5 – 2.5	2 – 4	1 – 2
Consumer prices	3.5	8.0	4.1	about 3	4 – 5	about 3
Unemployment (%)	7.4	15.1	8.9	8.5	16.0	10.0

Source: Federal Economics Ministry
*Provisional results

France demands tougher action by west in Bosnia

By David Buchan and agencies in Paris and Robert Mauthner in London

France yesterday called for Nato forces to take action to enforce UN decisions in Bosnia.

President François Mitterrand and Prime Minister Edouard Balladur said in a joint statement that Nato had agreed at a summit in Brussels this month to relieve UN troops in the Moslem enclave of Srebrenica and open Tuzla airport for aid supplies. "It is now time for this decision to be carried out, including, if necessary, by using force."

The French statement said international efforts to end fighting in former Yugoslavia had failed and none of the warring parties appeared ready to reach a peace agreement.

The international community must press for a peace accord by calling on all belligerents to make necessary concessions, the statement said.

At the same time, France has been examining ways of making the European peace plan for Bosnia more acceptable to the Moslems and thus to the US, while seeking Russian support to neutralise any hostile reaction from the Serbs, the dominant group in the war in the former Yugoslav republic.

Faced with growing frustration and internal division over keeping the largest contingent of UN troops in Bosnia, France has increased efforts to find what an Elysée official described as "a new cocktail of incentives and threats". The intention is to improve aid supplies as well as bringing the warring parties back to the negotiating table in Geneva.

The French initiative, led by Mr Alain Juppé, the foreign minister, who has this week talked to several of his EU partners and the Americans and Russians, appears aimed at getting the European Union to endorse modifications in the peace plan when their foreign ministries' political directors meet in Brussels next Monday.

A French foreign ministry official stressed yesterday that the existing peace plan, offering Moslems 33 per cent of Bosnian territory, Croats 17 per cent and Serbs 49 per cent, was "not untouchable".

Adapting the plan to favour the Moslems a bit more might not involve increasing their overall share of Bosnian territory, but might allow them to consolidate their holdings into a more manageable whole while ensuring them access to the Sava river in the north and the Adriatic in the south.

Mr Douglas Hurd, the UK foreign secretary, who visited British troops in Bosnia last week, yesterday confirmed that no decision had been taken on withdrawal of British troops from Bosnia and that the British government would "not act hastily or alone."

Romanian partnership with Nato

Romania became the first former Cold War foe of Nato to sign a partnership document with the military alliance yesterday and said it wanted to become a full member of the 16-nation body soon, Reuter reports from Brussels.

"My country considers the Partnership for Peace as a preliminary stage to Romania's future membership of Nato's political and military structures," Mr Teodor Melescanu, Romanian foreign minister, told a meeting of Nato ambassadors.

He signed the Partnership for Peace Framework Document, an initiative agreed at Nato's summit in Brussels this month.

Mr Amedeo de Franchis, Nato deputy secretary-general said the signing of the document was a "starting point", but he declined to give his view on Romania achieving full membership of the organisation.

Lithuanian President Algirdas Brazauskas, nervous of nationalism in Russia, is to sign a similar document today.

EU aid will try to remedy Russian banking defects

By Lionel Barber in Brussels

The European Union has approved a Ecu2m ($2.2m) scheme to help to remove "major defects" in the banking system in the former Soviet Union.

The defects include "a worrying lack of transparency" in the net position of credits and liabilities between banks, and between banks and customers. This lack of transparency could point to hidden insolvency problems, the European Commission said yesterday.

The Ecu2m contract will fund the dispatch of experts to the Russian central bank, and help to modernise payment and clearing systems. A portion will go to the new Inter State Bank set up to improve inter-state payments, as well as to the central banks of Ukraine and Belarus. EU officials said in Brussels yesterday that a more efficient payments system should help to reverse the collapse of inter-state trade in the former Soviet Union.

The Commission money belongs to the TACIS aid programme to eastern Europe and the former Soviet Union. The contractor is a Spanish-British consortium led by the SEMA group of Spain.

The Commission said that aid to the central bank of Belarus would "naturally" take account of the recent agreement with Russia on monetary unification.

● Sir Leon Brittan, EU Trade Commissioner, called yesterday for more aid to the former communist countries of eastern Europe, including the former Soviet Union. The EU, US and other donors should ensure that efforts do not fall short. Other Commission officials indicated that future aid is likely to be tied even more closely to the pace of reform.

Utility in privatisation plan

By Leyla Boulton in Moscow

The company which runs Russia's electricity grid and owns part or all of various power plants said yesterday it would offer 20 per cent of its capital to the public, as part of the country's mass privatisation campaign.

The decision appears to be an attempt to satisfy the government's need to make shares available to the public free of charge, in exchange for their privatisation vouchers. The sale is unlikely to change the way the company, United Energy System, is run. The government will keep 51 per cent and will continue to control electricity prices.

Mr Anatoly Dyakov, the chairman, denied the company was a "monopolistic monster", although his deputy said the share sale's attractiveness lay in the fact that the state retained control of prices.

Mr Dyakov admitted that consumers, particularly industrial users, owed Rbs2,000bn ($1.3bn) in unpaid bills. "We cannot kill the goose which lays the golden eggs," was how Mr Yevgeny Borisov, the deputy chairman, explained the company's reluctance to cut off non-payers.

Despite this, and the fact that the company has no money for the investment it wants to modernise and expand electricity production, company officials promised to pay shareholders a dividend of about 15 per cent a year. But, with inflation at 20 per cent a month, the government will be unable to fulfil its promise that investors' capital will be safe.

Unicef criticises economic reform's high human cost

By Frances Williams in Geneva

Economic and social reforms in central and eastern Europe have proved far more costly in human terms than originally anticipated, with a massive rise in poverty and widespread social disintegration, the United Nations Children's Fund says in a report* published yesterday.

Presenting the report in Geneva, Mr James Grant, Unicef's executive director, said immediate action was needed to minimise and compensate for the human cost of reform measures. While reforms were necessary, policymakers had focused almost exclusively on economic issues to the detriment of social concerns, he said.

He also criticised bilateral aid programmes for the region which he said were all too often driven by short-term commercial interests rather than the needs of the receiving country.

The report, which documents the impact of the economic slump on living conditions in nine countries since 1989, points out that while all have suffered the negative effects of reforms the crisis is most pronounced in eastern and southeastern Europe. There, the spread of poverty, surging death rates, plunging birth rates, falling school enrolment and an unstoppable crime wave have reached "truly alarming proportions".

"These costs are not only the cause of unnecessary suffering and waste of human lives but also represent a source of considerable instability and social conflict that could threaten the entire reform process," Unicef argues. Crude death rates (for the population as a whole) were up 9 per cent in Romania, 12 per cent in Bulgaria and 32 per cent in Russia. Between 1989 and 1993 the yearly number of deaths in Russia rose by more than 500,000.

Mr Giovanni Andrea Cornia, principal author of the report, said the increase was partly due to the spread of infectious diseases such as diphtheria and tuberculosis as immunisation programmes lapsed. There has also been a serious rise in deaths from accidents, poisonings and murder. In Poland the number of suicides rose by one-third between 1989 and 1992.

Unicef notes that, although there are some signs of recovery in certain areas, only the Czech Republic appears to be slowly returning to normal. In Romania, Russia, Ukraine and, to some extent, Bulgaria the crisis is deepening.

* *Public policy and social conditions, available from Unicef International Child Development Centre, Piazza Santissima Annunziata 12, Florence, Italy*

French fashions show first deficit

By Alice Rawsthorn in Paris

The French fashion industry, traditionally one of the most prestigious elements of Gallic commerce, last year recorded its first trading deficit.

France's women's wear manufacturers saw the balance of trading swing from a surplus of FFr1bn ($160m) in 1992 to a FFr321m deficit in 1993 according to figures from the Fédération Française de la Prêt-à-porter.

Every area of the industry has been affected, from mass-market manufacturers to France's exclusive fashion houses, which face fierce competition from Italian rivals and the increasingly influential young Belgian designers.

The chief *problem for* French fashion was the downturn in demand from its main European markets, notably Germany where sales of French women's wear fell by a third. Sales were affected by the gloomy economic environment and by the franc's strength against other European currencies, which made it more difficult for the French to compete against the Italians.

The extent of the fall in sales to Europe was magnified by changes in the European Commission's method of compiling statistics, but these changes simply exaggerated the underlying negative trend.

French fashion did benefit last year from an increase in exports to the fast-growing Asian economies, such as South Korea and Taiwan.

Business was little better on the home front. Sales of French women's wear fell by 1.7 per cent last year in France itself. The only areas of the market to show growth were hypermarkets and mail order catalogues, which specialise in selling cut-price fashions.

EU rules on car sales 'a disaster'

A European consumers' group yesterday called for an end to the system of exclusive distribution networks for EU car sales, writes John Griffiths.

The Bureau Européen des Unions de Consommateurs claimed that the system, which is exempt from normal EU competition rules, has worked against consumers' interests while providing virtually none of the benefits claimed by Europe's motor industry.

BEUC's denunciation came in Brussels less than 24 hours after the Industry Commissioner, Mr Martin Bangemann, had suggested the 10-year "block exemption" from competition rules could be extended after it expires in 1995.

BEUC's director, Mr Jim Murray, yesterday claimed that the exemption had been "an unmitigated disaster" for consumers. It had restricted competition, denying consumers freedom to buy competitively-priced cars throughout the EU. Price differentials between member states remained wider than could be accounted for by tax differentials or currency movements, and manufacturers and dealers had obstructed attempts by consumers to buy cars abroad.

The Competition Commissioner, Mr Karel Van Miert, is expected to be less sympathetic towards renewing the exemption than Mr Bangemann.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 5964481, Telex 416193. Represented by Edward Hugo, Managing Director. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International). Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Bell.

FRANCE
Publishing Director: J. Rolley, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297-0621, Fax (01) 4297-0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

DENMARK
Financial Times (Scandinavia) Ltd, Vimmelskaftet 42A, DK-1161 CopenhagenK. Telephone 33 13 44 41, Fax 33 93 53 35.

Deal still not written off

Friction over talks on Japan market access

By George Graham in Washington and Michiyo Nakamoto in Tokyo

US and Japanese officials resumed technical discussions yesterday on improving access to key sectors of the Japanese market, after failing to make progress in higher-level talks that broke up on Tuesday night.

Senior US officials said there were still "substantial stumbling blocks" in the way of reaching a satisfactory agreement in time for the summit meeting of President Bill Clinton and Prime Minister Morihiro Hosokawa, in Washington on February 11.

The Clinton administration is seeking expanded US exports to Japan under a framework agreement negotiated last year, and is targeting Japanese barriers to sales of cars and automotive parts, insurance, and government procurement of medical and telecommunications equipment.

However, a US official said talks in the automotive sector were "at a complete impasse", while progress so far on insurance and government procurement was marginal.

US officials said there were still major problems both over the goals they would like to set for increased market penetration, and over the objective criteria they insist on setting to measure progress.

"If there are no objective criteria, there are no agreements - period," said a senior negotiator.

Other officials reiterated the US position that they would rather have no agreements than sign something that failed to achieve their market access goals, but they said that it was too early to write off the possibility of reaching a satisfactory deal.

"The rhythm of these things has always been that there's an awfully slow run-up," one senior offical said.

Under the framework agreement, the US committed itself to reduce its budget deficit and increase its national savings and competitiveness, while Japan promised to achieve a highly significant reduction in its trade surplus with the US, as well as a significant increase in import penetration.

In Tokyo, Mr Andrew Card, president of the American Automobile Manufacturers' Association, has called on Japan to create a market environment that would assure US car makers sales in Japan of 100,000 vehicles a year in three years' time. This would be used as a benchmark figure to measure US access to the Japanese car market.

Mr Card, who served as transportation secretary under President George Bush, indicated that such a benchmark would help US carmakers justify making the necessary effort to penetrate further the Japanese market by ensuring that their work would be rewarded.

Last year, US carmakers exported about 14,000 cars to Japan.

His remarks reflect the continuing insistence on the US part on the use of quantitative targets in opening Japan's markets to foreign goods despite repeated Japanese resistance to such targets on the grounds that these would lead to managed trade.

Continuing failure to break the deadlock in the bilateral trade talks, despite several sessions, has led to growing friction and distrust between negotiators on each side.

While each side insists that the Clinton-Hosokawa summit is still scheduled to go ahead, in spite of the current political turmoil in Japan and the receding possibility that concrete US-Japanese agreements can be hammered out in time, there are also growing signs that the US is reviewing its options in case the summit is postponed or turns out to be unsatisfactory.

Mr Lloyd Bentsen, US treasury secretary, said in Tokyo this week that the US might have to review the basis of its trade talks with Japan if the framework negotiations on trade and economic matters were to prove unsatisfactory.

Prime Minister Hosokawa (left) needs an accord by next month but Treasury Secretary Bentsen is threatening a basic re-think

Czech capital pressure

Rising inflows of foreign capital are increasing pressures on the Czech authorities to speed moves to make the crown fully convertible, reports Patrick Blum in Vienna.

Provisional estimates put capital inflows in the Czech Republic at \$1.4bn (£939m) last year, more than the \$1.2bn recorded in 1992 for Czechoslovakia. Of last year's total, about \$600m was in direct investment and about \$100m-\$200m in portfolio investment, with the rest in loans and credits.

The completion this year of the first round of voucher privatisation, with shares in about 1,000 companies sold to the public, and the start of trading on the Prague stock exchange in June, have encouraged foreign investment in Czech stocks and securities.

Chinese plant order for Zimmer

By Christopher Parkes in Frankfurt

Zimmer, a Frankfurt engineering and construction group, has won a DM140m (£53m) turn-key contract to equip and start a polyester plant in Acheng City, 1,000km north east of Beijing.

The order, by China Heilongjiang Polyester Plant and China National Machinery and Equipment, brings the total number of polymer and synthetic fibre contracts undertaken by Zimmer in China to 45 in the past 17 years.

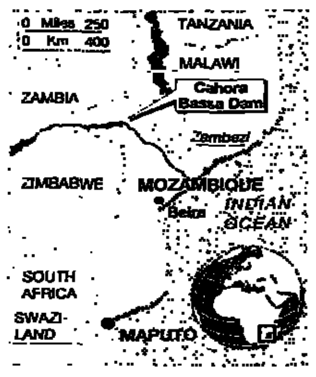
The new plant is due to be commissioned in 1996. The contract includes fitting out a polyester polycondensation plant with an annual capacity of 80,000 tonnes of polyester chips and polymer, and a staple fibre spinning facility.

Liquid polymer output will be used in a single-line process to produce up to 33,000 tonnes of polyester staple fibre a year.

Finance will come via a credit facility of Kreditanstalt für Wiederaufbau and the Bank of China for a Hermes-covered buyer's credit of 85 per cent of the order value.

Hope for Mozambique energy

By Leslie Crawford in Maputo



Mozambique is poised to become an energy exporter, thanks to the end of the country's 17-year civil war and to an international project to rebuild power lines supplying electricity to South Africa from the Cahora Bassa hydro-electric dam.

Portugal, the former colonial power, South Africa and Mozambique are finalising the details of a \$105m (£70m) financial package to rebuild 1,800 pylons destroyed by South African-backed rebels in their war against the Marxist government in Maputo.

When energy exports can resume, Cahora Bassa will be Mozambique's biggest export earner with estimated revenues of \$56m a year, according to Mr Manuel Lopes da Costa, Portuguese ambassador in Maputo. The economy now can barely muster export revenues of \$200m a year.

South Africa has agreed to supply new electricity towers worth \$48m. Portugal will finance the procurement of cables and isolators with \$27m.

Italy had agreed to contribute \$35m but withdrew last year when its foreign aid programme came under investigation for corruption.

Mr Lopes da Costa hopes the European Union, France or the European Development Bank will fill the gap left by the Italians.

Cahora Bassa is a 2,000 MW dam on the Zambezi river, completed in 1977. Its transmission lines were a favourite and frequent target of Renamo rebels in the early 1980s. More than 200km of lines were destroyed and Cahora Bassa is operating at only 1.5 per cent capacity.

Portugal, which built the dam and holds the operating concession, has spent \$35m a year to keep it in working order. Mozambique, although entitled to a share of Cahora Bassa's export earnings, has not seen a penny because the contracts to supply the South African electricity grid have not been fulfilled.

Mr José Miguel Nicolau, planning director at the national power company, Electricidade de Moçambique, hopes reconstruction will begin in July, at the start of the dry season. It should take 36 months to complete.

Gatt support on environmental links

By Frances Williams in Geneva

Broad support for wide-ranging talks on the links between trade and the environment was voiced yesterday by members of the General Agreement on Tariffs and Trade, at their annual meeting in Geneva.

Ministers are to meet in Marrakesh in April to sign the Uruguay Round accords. They also are due to approve a Gatt work programme on trade and environment, the details of which will be thrashed out in negotiations among the world trade body's 115 members over the next two months.

However, trade officials said yesterday that these negotiations had only just started in earnest and that many governments had yet to take a firm position on the issues to be covered.

Gatt's working group on environmental measures and international trade, which reported to the annual meeting yesterday, has already paved the way for further work in three key areas: the trade provisions of international environmental agreements, transparency of national environment regulations, and the trade effects of packaging and labelling requirements aimed at protecting the environment.

However, environmental groups are pressing for the work programme to include "eco-dumping" - the competitive advantage alleged to be gained by countries with low environmental standards - and the ability of governments to restrict imports produced in environmentally unfriendly ways.

The annual meeting earlier decided:

- To establish an independent disputes panel to examine claims by several tobacco-producing nations that new US rules on local content for cigarette manufacturers are illegal under Gatt;
- To set up a working party to negotiate Gatt entry terms for Jordan.

Asean urged to step up trade

South-east Asian nations should increase trade among themselves if they want to maintain the pace of economic growth in their region, an official of the European Parliament said yesterday, AP reports from Manila.

Mr Ben Visser, first vice-chairman of a visiting 19-member European Parliament delegation, spoke to a news conference at the end of a three-day visit, the first stop on a tour which will also take them to Thailand, Vietnam and South Korea.

Mr Visser, from the Netherlands, said the six members of the Association of South-east Asian Nations should spearhead trade in the region. He added that Asean (which is made up of the Philippines, Thailand, Indonesia, Singapore, Brunei and Malaysia) must work out an arrangement similar to that of the European Union.

He said that, despite problems in Europe, 80 per cent of all trade by European nations is within the continent. Regional trade within Asean accounts for only 15 per cent, he said.

King Hussein willing to meet Rabin

By Julian Ozanne in Jerusalem

King Hussein of Jordan yesterday said, for the first time, he was willing soon to meet Mr Yitzhak Rabin, the Israeli prime minister. The move could bolster efforts to reach a comprehensive Middle East peace.

"I hope an opportunity will arise before too long," King Hussein said after meeting Mr Warren Christopher, US secretary of state, in Washington.

Israel, anxious for increasing Arab recognition abroad and peace dividends at home, has been urging the US to arrange a summit with King Hussein in return for US assistance with Jordan's external debt. Mr Shimon Peres, Israeli foreign minister, met the king secretly in Jordan last November. Israel says a detailed peace agreement with Jordan was concluded, but the king has been reluctant to sign a formal peace with Israel before Syria and Lebanon.

The king's offer will be welcomed in Israel which has been focusing its sights on a level of co-operation with President Hafez al-Assad of Syria.

Mr Rabin said yesterday that his government "yearned" to strike a lasting regional peace agreement this year and urged Mr Assad to "go the extra mile" and assure Israelis that Syria had long-term, peaceful intentions towards the Jewish state.

In a solemn address to the parliamentary assembly of the Council of Europe in Strasbourg, Mr Rabin urged Syria and other Arab states not to lose precious time and to seek bilateral agreements in Washington. "Israel is ready for peace and willing to take risks and make dramatic decisions but any risk or decision should be well calculated."

Mr Rabin said Israel needed to be sure that Syria genuinely means peace and security. "We are looking for a peace that would last for generations to come – a peace that will put an end to the suffering and fear of all the peoples of the Middle East."

In an emotional moment, Mr Rabin recalled his days as army chief of staff during the 1967 Six Day War: "Only one who, year after year, stands facing thousands and ten of thousands of silent mourners in the cemeteries on our memorial day – only one who has seen worlds destroyed and families devastated – knows just how important is peace to us and also for our neighbours."

However, he also warned Palestinian extremists who reject peace with Israel. "To them I say: no knife, no stone, no firearm, no bomb, no landmine will stop us. We will continue to strike hard without flinching... We strive for peace but we will continue to fight for our right to live in Israel in peace and tranquility."

Mr Rabin accused some European nations of ambivalence towards the Jewish state and urged Europeans to help break the Arab economic boycott of Israel. He said Europe should take a more direct role in Middle East peace talks, adding that Israel did not need Europe's money which should be directed to Palestinians to help consolidate the peace agreement.

He also made a surprise offer to allow Libyan leader Muammer Gadaffi to visit Islamic holy sites in Jerusalem.

Mr Rabin's remarks came a day after Israel's President Ezer Weizman showered rare praise on the Syrian leader, saying he held the key to Middle East peace and was a man of integrity, sincerity and honour.

"I see the key to further peace in the Middle East in finding a solution to Syria, which obviously depends on President Assad. And I still see Assad as a leader through whom peace can be achieved," Mr Weizman said during a visit to Turkey.

Israeli officials said secret bilateral talks with Syria in Washington have shown signs of progress since Mr Assad said he wanted "normal" peaceful relations with Israel during a meeting with President Bill Clinton in Geneva earlier this month.

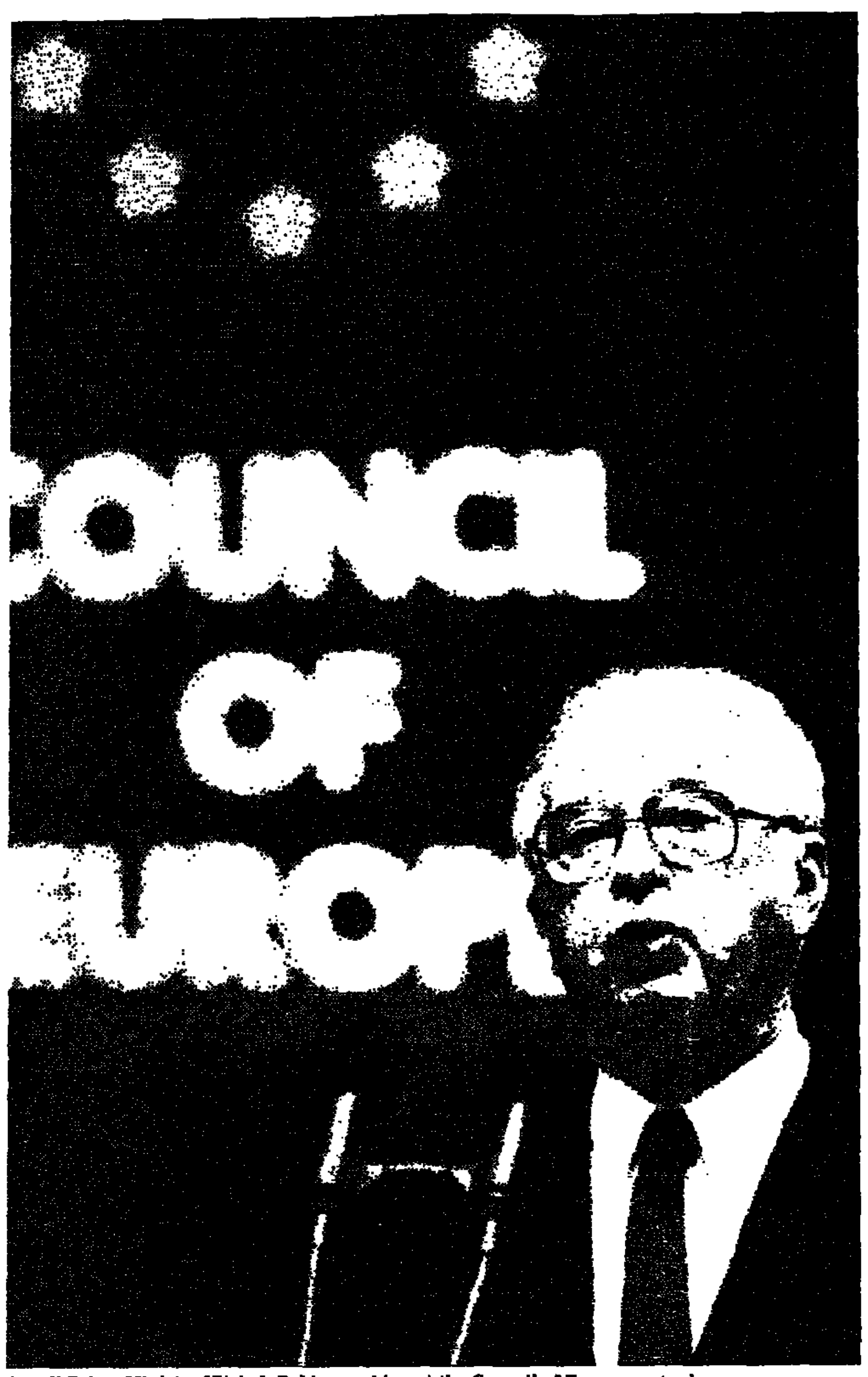
● As Israel focused on peace talks with Syria, Israeli and Palestinian officials yesterday adjourned their hastily arranged talks in Cairo, adds Mark Nicholson.

The talks were called on Tuesday evening to try to hammer out an agreed document that would break the deadlock on implementation of Palestinian self-rule in the Gaza Strip and West Bank area of Jericho.

Palestine Liberation Organisation negotiator Nabil Shaath said: "We are making progress," but did not elaborate except to say: "All the day we have been drafting."

The main disagreements are over security arrangements at the border posts between Egypt and Gaza and between Jordan and Jericho, how much land the Israeli army will retain to protect Jewish settlers in Gaza and the size of the Jericho area.

Israeli officials sought to dampen hopes that Mr Peres and Mr Yassir Arafat, PLO chairman, would sign an agreement when they meet in Switzerland at the weekend.



Israeli Prime Minister Yitzhak Rabin speaking at the Council of Europe yesterday Reuter

UK is odd man out in China diplomacy

Beijing eases conflicts with other security council members, writes Tony Walker

When Chinese foreign minister Qian Qichen concluded a visit to Paris this week, he achieved more than simply restoring equilibrium to a troubled relationship.

The Sino-French rapprochement means that China has now reduced the number of serious diplomatic conflicts with fellow members of the world's most exclusive club, the UN Security Council, to one – its dispute with Britain over Hong Kong.

Nothing could have contrasted more sharply than the emollient words uttered in Paris at the conclusion of Mr Qian's visit and the continuing sour exchanges between Beijing and London.

Indeed, troubled Sino-British relations appear to have taken a further turn for the worse with the row over the financing of the new Hong Kong airport flaring up in a way that does not augur well for amicable resolution.

China's warning that it would refuse to honour after 1997 financing for the new HK$160bn (£13.9bn) airport project threatens to strike at the heart of arrangements for a smooth transfer of power. No other capital works project is as important to Hong Kong's integration with the mainland, and the colony's future economic well-being.

Britain's problems with China have also been cast in starker relief in recent days by the conspicuous improvement in fractious Sino-US relations after Washington's decision last September to end the "downward spiral" in its dealings with the People's Republic.

Since the Clinton administration resolved to "re-engage" China, a steady stream of senior American officials has passed through Beijing, culminating in the visit last week of Mr Lloyd Bentsen, the US treasury secretary.

These visits have also been accompanied by tangible progress on bothersome issues, including trade disputes, smuggling and illegal immigration. The signing this month, after reasonably amicable negotiations, of a three-year textile quota agreement attested to an improved working relationship.

Efforts to lay the groundwork for renewal by President Clinton of most favoured nation (MFN) trading status for China by obliging Beijing to address the human rights issue appear to be making progress; but US officials say that China is still some distance away from meeting Mr Clinton's criteria of "overall, significant improvement" on human rights.

In Paris this week, China appeared to make an important concession by agreeing to discuss for the first time specific US concerns about 235 political prisoners. That undertaking came at a meeting between Mr Qian and Mr Warren Christopher, the US secretary of state.

While Mr Christopher repeated a standard administration line after his session with Mr Qian that China had not met the criteria for continued preferential access to the US market, there is no doubt that odds on MFN renewal have shortened.

"This meeting has carried the process forward but we also believe there is considerable work to be done," said Mr Winston Lord, assistant secretary of state, former US ambassador to Beijing and chief architect of the Clinton administration's policy on China.

A western official in Beijing said that while human rights issues were certain to continue to bedevil China's dealings with the west, there were tentative signs that Beijing may at last be recognising that it could not continue to stonewall western pressures.

"The Americans may have finally convinced the Chinese of the US domestic reality, and that they will have to do something tangible on human rights," he said. "The cynical release of a few prisoners on the eve of the MFN decision simply won't fly any more."

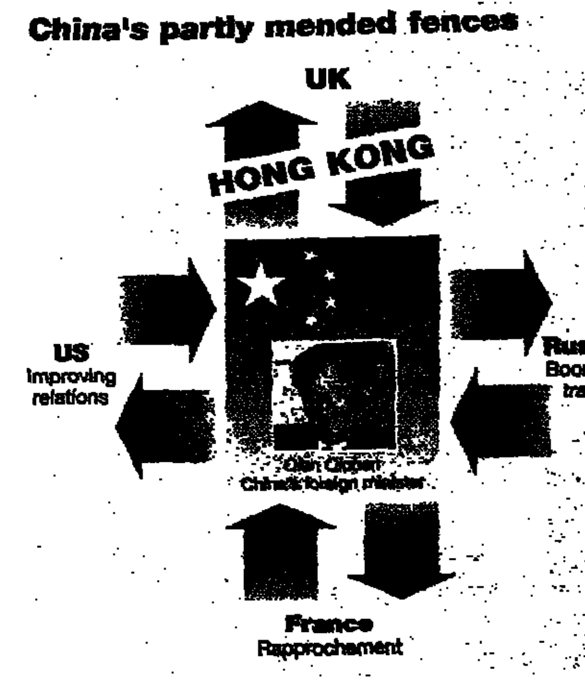
China's fence-mending with both the French and the Americans also coincides with the visit to Beijing this week of Mr Andrei Kozyrev, the Russian foreign minister at the head of a mission which includes defence experts.

China is seeking increased Russian assistance in the development of its defence industries. It is also anxious to further expand and regulate booming border trade. Total trade between Russia and China increased by 30 per cent last year compared with 1993. Eighty per cent of this trade is conducted through some 20 border crossings.

For the Russians, no less than for the Americans and French, access to the booming China market is the engine driving diplomatic relations. France's decision to foreswear further arms sales to Taiwan as the price of better China relations – what France's President François Mitterrand described as a "new orientation" – is recognition of China's growing economic clout.

For London, mired in a seemingly intractable dispute over Hong Kong, the unhappy prospect is for continued sour exchanges with Beijing, accompanied by the risk of damage to UK commercial prospects. Emboldened by its success in forcing France to stop new arms sales to Taiwan, and assuming that it clears the MFN hurdle, Beijing is even less likely to yield ground over Hong Kong.

China's partly mended fences



Philippines in credit agreement with IMF

By José Galang in Manila

The Philippines has negotiated a new credit facility of SDR475m ($653m) with the International Monetary Fund to support the Philippines' growth-oriented economic programme for the three years to 1997.

The agreement was concluded yesterday by a visiting technical team from the Fund and a panel of government officials led by Mr Gabriel Singson, governor of Bangko Sentral, the central bank.

The IMF has closely supervised the drafting of Manila's economic policies since the early 1960s.

Mr Singson expressed his belief that the new IMF credit programme will help "lay a firm basis for faster and sustainable [economic] growth."

The Philippines, which has been without an IMF economic programme since March 1993, has managed to sustain economic growth as well as to control inflation and monetary expansion.

The credit will come from the IMF's Extended Fund Facility, the institution's window for medium-term financing. Previous programmes for the country had been standby agreements, which were for shorter periods and carried tough conditions.

The new programme should enable the Philippine government to attain this year's growth target of 4.5 per cent, after last year's 2.5 per cent.

Mr Fidel Ramos, the Philippine president, said: "This is it. We can now proceed with our plans to move our economy forward and achieve our aspiration to join the club of newly industrialising countries by the turn of the century."

The programme, which is subject to further review by the IMF technical team before formal board approval around April, targets economic growth to rise to 6.5 per cent next year and about 8 per cent by 1997.

Mr Michel Camdessus, the IMF managing director, is expected to visit Manila in February. That will be followed by a visit by Mr Lewis Preston, the World Bank president, in March or April.

NEWS IN BRIEF

De Klerk and Mugabe meet

South Africa, Zimbabwe and Botswana yesterday agreed to launch a joint initiative to resolve the military crisis in Lesotho, Reuter reports from Gaborone.

The summit in the Botswana capital marked the first face-to-face meeting of South African President F W de Klerk and Zimbabwean President Robert Mugabe. It was also the first joint foreign mission by Mr de Klerk and Mr Nelson Mandela, the African National Congress leader. Mr Mugabe said Botswana and South Africa would help the efforts to defuse the Lesotho crisis.

India eases mining curbs

India has decided, as part of its economic reform programme, to open the state-owned mining industry wider to foreign and domestic private companies, Reuter reports from New Delhi.

United News of India said that the government had issued an ordinance to allow foreign investment in mining firms and lift restrictions on foreign equity holding.

The ordinance would permit any company registered in India, irrespective of its foreign equity holding, to apply for a mining lease or prospecting licence. Earlier laws restricted foreign equity in these companies to 40 per cent.

Egypt offered aid pledges

Egypt has won aid pledges of between $2bn to $3bn a year to help bolster its economic reforms, Mr Youssef Boutros-Ghali, minister of state for international co-operation, said yesterday, Reuter reports from Paris. Mr Boutros-Ghali, in Paris for a meeting with aid donors, said he had had informal contacts with the Paris Club of creditor nations and said a debt relief programme was proceeding normally.

Egypt is due to receive a final 20 per cent of debt forgiveness in July, following a 1991 deal by which the Paris Club agreed to halve Egypt's official debt in return for its role in the Gulf War, on condition that it pursue economic reforms. Almost $1bn of the aid is likely to come from the US, western officials said.

S Korean bank chiefs fired

The presidents of two South Korean commercial banks will be dismissed by the government in response to a new financial scandal, the country's finance minister said yesterday, writes John Burton in Seoul.

The action to sack the heads of the Bank of Seoul and Donghwa Bank followed the arrest on Monday of Ms Chang Young-ja, a relative of former President Chun Doo-hwan, on fraud charges.

Prince soothes republicans

Prince Charles, heir to the British throne, last night sent a conciliatory message to Australia's republicans, saying that the decision on whether the nation should become a republic was "something which only the Australian people can decide," writes Nikki Tait in Sydney.

Speaking at Australia Day celebrations in Sydney, the prince referred to the "sheer speed of change" in the world.

The speech came less than an hour after a man had broken through the crowd at Darling Harbour and fired a starting pistol before charging towards the prince. The man was wrestled to the ground by plain-clothes police and the prince was unharmed.

Australian's arrest sought

A Brisbane district court judge has issued a warrant for the arrest of Mr Christopher Skase, the failed Australian businessman, at present living in Spain, writes Nikki Tait in Sydney.

Mr Skase faces 32 charges brought by the Australian Securities Commission and related to the management of his now-defunct Qintex media group.

Slovo dismisses business fears

By Matthew Curtin in Johannesburg

Mr Joe Slovo, the national chairman of the South African Communist party, yesterday said that business concerns that the ANC and its allies were bent on nationalisation were unwarranted. At a meeting of prominent businessmen, he emphasised that there should be no cause for concern about the future independence of the mining industry.

Mr Slovo, fourth on the ANC's electoral list and a strong contender for a seat in the non-racial parliament, said the organisation did not advance "a mechanistic policy of across-the-board nationalisation" because it would prove too costly and counter-productive. He described the "hullabaloo" about "nationalising" mineral rights as alarmist because the ANC's intention was to only ensure a new government had room for intervention in the sector.

"The Chamber of Mines knows perfectly well it is not going to lose its mines," he added. However, nationalisation remained a policy option and the SACP retained its ultimate vision of achieving "socialised means of production".

The long-standing dispute between the ANC and South Africa's mining houses gathered momentum last week after the publication of the organisation's reconstruction and development programme. Mr Paul Jordan, the ANC's co-ordinator of mineral and energy affairs policy, proposed that a new government would seek the return of mineral rights from the private sector and intervene in the management and marketing of minerals.

On Tuesday, an ANC briefing on its mining policy provoked an angry reaction from industry leaders. Representatives from Anglo American, Johannesburg Consolidated Investment and Gencor said the ANC's proposals flew in the face of economic reality.

Libya demands repayments

Libya's economy minister yesterday demanded that foreign countries pay back money they owe or risk losing the assets of their companies working in Libya, agencies report from Sirte.

Mr Omar Mustafa el-Montasser told a session of the General People's Congress that Libya was owed from abroad a total of $1.353bn (£900m) and FFr22bn (£2.47bn), including interest on delayed payments.

The minister said his government had asked the countries involved to reimburse cash. Those unable to do so would reimburse Libya in various ways from the assets of their companies in Libya, or through imports of goods and products from their countries, or by Libya taking stakes in their companies.

The source of the minister's figures was not clear. It was not known whether he meant Libya would seize the assets of some foreign companies in Libya. Many foreign firms work in Libya's oil industry.

His statement appeared to mark retaliation for UN sanctions imposed on Libya because of its refusal to hand over for trial two agents suspected of carrying out the bombing of a Pan Am aircraft over Lockerbie, Scotland, in 1988. The sanctions were tightened in December to include a freeze of Libyan assets abroad and a ban on imports of certain oil equipment.

Prime minister Abouzid Omar Dourdah said on Sunday that Libya had sharply cut its budget forecast for 1994 because of difficulties caused by the sanctions.

"The cut amounts to several billions [of dollars]," he said after a commission of the Congress had adopted the draft budget. "As a result of the unjust UN sanctions, we have been forced to cut our expenses in several domains like education and health."

Central Asians cut loose from Moscow

Steve LeVine reports on an attempt to establish a tripartite economic union

The largest republics in Central Asia, Kazakhstan and Uzbekistan, are reducing their dependence on Russia in the run-up to their agreed formation of a common market with Kyrgyzstan on February 1.

The breach became evident at the start of the year when Kazakhstan and Uzbekistan formed their own economic union and gained momentum this week when Kyrgyzstan joined the breakaway grouping, representing open antagonism from a region which had previously valued close ties with Moscow and even opposed the Soviet break-up.

The new distaste for and worry about Moscow follow increasingly vocal demands from Russia for part of the wealth in the resource-rich Caucasus and Central Asia, particularly giant oil and natural gas deals under negotiation in Kazakhstan and Azerbaijan.

The demands for percentages and equity holdings in exploration and extraction contracts have been echoed by Russian nationalists such as Mr Vladimir Zhirinovsky who insist on reclaiming the empire and the spoils that go with it.

In loosening ties with Moscow, Kazakhstan, Uzbekistan and Kyrgyzstan have also moved away from their two Central Asian neighbours, Tajikistan and Turkmenistan, both of which have elected to remain as either economic or political satellites. Tajikistan has handed over supervision of both its security and economy to Moscow, while Turkmenistan is pursuing a course of appeasement with Moscow.

Kazakhstan, which has the second-largest oil reserves in the former Soviet Union, including two of the world's 10 largest oil fields, has recently altered the tone of its statements on Russia to almost open hostility. Despite Kazakhstan's vulnerability to its northern neighbour, with an ethnic Russian population of 38 per cent, the republic's state secretary, Mr Tulebek Zhukeev, has taken the risky step of publicly denouncing Moscow's "imperial ambitions".

Mr Zhukeev recently announced his government would charge Russia $7bn in annual rent for the Baykanur space station and two military test sites. Demonstrating the sentiment behind the pricey demands, Mr Zhukeev declared: "This will bankrupt Russia."

The Kazakh government has reason to be upset with Russia. While demanding $1.2bn (£803m) in 1993 debts to Russian state enterprises, Moscow has not paid for huge coal shipments from Kazakhstan's Karagan region. At the same time, raw material shipments from Russia have become unreliable.

The Central Asian economic union is meant to co-ordinate economic, monetary and labour policy. It would create a region larger than western Europe, with a combined population of 48m but possessing as much oil and mineral wealth as some leading Gulf states. The grouping will abolish customs procedures and tariffs and co-operate on economic policies. It aims to encourage growth of trade between members.

Another motive, however, is to erect a front-line defence against Moscow's growing political demands, including one that ethnic Russian citizens in Central Asia be granted dual nationality, a demand rejected by Uzbekistan and Kazakhstan as an unacceptable infringement of their sovereignty.

In short, the Kazakh and Uzbek leaderships want Moscow to back off. This may not be accomplished, said a senior diplomat in Tashkent, but at the least "the union makes it easier to deal with Russia both economically and politically".

Turkey has expressed apprehension over the spectre of Russian military involvement in the Caucasus and Central Asia, where there are large Turkic-speaking populations. "This is a black hole into which Turkey is trying not to sink," said Mr Ozdem Samberk, Turkey's deputy foreign minister, writes Steve LeVine.

Turkish officials are also smarting over the shelving of a $1.4bn (£938m) pipeline they had been championing to carry oil from Azerbaijan, through Turkey, to the Mediterranean port of Ceyhan. Instead, Moscow has been putting pressure on Azerbaijan and Kazakhstan to ship oil and natural gas through the Russian Black Sea port at Novorossisk.

"The West must make a distinction between support of democracy in Russia, and support for the restoration of its imperial designs," Mr Samberk said.

Tough-talker Clinton slays the 'naysayers'

The president demands results in his domestic crusade, reports Jurek Martin

STATE OF THE UNION

If giving speeches were all there was to government, and if the US constitution allowed it, Ronald Reagan would have been elected president-for-life – and so, on Tuesday night's form, might Bill Clinton. In fact there was quite a lot of the old Republican gunslinger in the first official State of the Union address by the self-proclaimed "new kind of Democrat".

The call-to-arms for a better America, with or without the assistance of Congress, and the brandishing of his pen as he threatened to veto any healthcare legislation that did not provide universal insurance coverage were borrowed from the Reagan handbook. So too were the acknowledgement of ordinary (and not so ordinary) people in the public galleries and the symbolically artful seating at either side of Mrs Hillary Clinton of Jack Smith, head of General Motors, and Lane Kirkland, the trade union leader.

Critics might also complain that the 64-minute speech was too long, yet short on new proposals, especially on the revived promise to "end welfare as we know it". Foreigners might lament that its external passage was both perfunctory and predictable and Republicans that the president keeps stealing their clothes.

But reservations must be placed in context. The State of the Union address offers all presidents a stage and – for a Democrat, old or new, welcomed by a Democratic Congress – an audience guaranteed to applaud often and loudly. And it found Mr Clinton in vintage missionary form on his favourite subject, domestic reform. The country, he concluded in ringing tones, "is growing stronger but it must be stronger still".

It was tough for the opposition to muster an effective immediate response. Senator Bob Dole, the Republican leader, speaking woodenly from his office without the benefit of partisan cheering, could only proclaim that there was no healthcare crisis, and complain about higher taxes.

Potentially far more revealing, though still to be approached with a degree of cynicism, was the reaction of Congressman Newt Gingrich of Georgia, the firebrand conservative. "There is a potential, if this speech was sincere, for a remarkable coalition that could pass a lot of stuff," especially on crime and welfare. He added approvingly that Mr Clinton was now talking his kind of language.

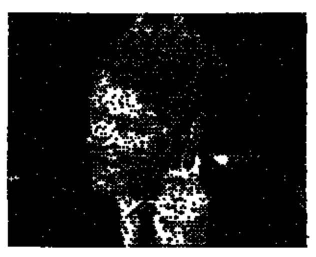
This, indeed, was the political message of the address. Mr Clinton drew his line in the sand, insisted that an improving economy was no excuse for delaying more reform and gave the distinct impression that he did not care from which side of the political aisle he derived support for his crusade. But he warned, too, that the body politic was ultimately accountable to the public – "those who hold our feet to the fire".

Clinton speaks: warning and coaxing Congress

Violent crime

'Violent crime and the fear it provokes are crippling our society, limiting personal freedom and fraying the ties that bind us.'

'Every day, the national peace is shattered by crime...The problem of violence is an American problem. It has no partisan or philosophical element. Therefore, I urge you to... set aside partisan differences and pass a strong, smart, tough crime bill.'



Health and welfare

'I want to make this very clear...If you send me legislation that does not guarantee every American private health insurance that can never be taken away, you will force me to take this pen, veto the legislation, and we'll come right back here and start all over again.'

'I know it will be difficult to tackle welfare reform in 1994 at the same time we tackle healthcare. But let me point out, I think it is inevitable and imperative.'

The federal budget

'It will cut spending in more than 300 programmes, eliminate 100 domestic programmes and reform the way government buys its goods and services. This year, we must make the hard choices again to live within the hard spending ceilings we have set.'

'The budget... draws the line against further defence cuts. It fully protects the readiness and quality of our forces.'

Foreign policy

'Our support of reform (in Russia and the other former Soviet republics) must combine patience, for the enormity of the task, and vigilance, for our fundamental interests and values. We will continue to urge Russia and the other states to press ahead with economic reforms.'

'As we build a more constructive relationship with China, we must continue to insist on clear signs of improvements in that nation's human rights record.'

Americans, he said, would not heed the siren songs of the special vested interests and the "naysayers who fear we will not be equal to the challenges of our time and who misread our history, our heritage and even today's headlines".

There were micro-political messages, too. The president's promise to bring in soon substantive proposals to change the welfare system and explicitly to link this with healthcare reform was a clear nod in the direction of Senator Daniel Patrick Moynihan, the New York Democrat who chairs the Senate finance committee.

The senator, an intellectual, if temperamental, original in this Congress, has become miffed with the administration. He has declared, like Senator Dole, that there is no national healthcare crisis and threatened to make trouble for the health proposals if his welfare hobby horse was relegated in priority – which is precisely what the White House intended at the start of this year.

At least he was satisfied with Mr Clinton's commitment on Tuesday night, though as the president went on to expound with much greater passion on the imperative of healthcare reform he can have been left in little doubt where the Clinton heart lies.

But this, too, had a political need. The momentum for changes in healthcare, accelerated by the rapturously received presidential address to Congress last September, has slowed over the last two months. Other issues such as Nafta, gun control and Mr Clinton's European trip have intruded while the insurance and medical professions have begun to launch effective propaganda campaigns. It had become incumbent on Mr Clinton to regain the initiative.

His ecumenical side was also much in evidence in the coda to his address on crime and on the responsibility of individuals to make their communities safer.

Much of what he said appeals to conservatives – mandatory sentencing for violent offenders, more police on the streets, the restoration of family values – but some, specifically the calls for ever tighter gun control, does not.

Violent crime is now a perennial political issue. Every president since Lyndon Johnson has attacked it and Congress loves to debate it, though the effect of the efforts of both may be questioned, not least because conservatives and liberals have rarely been able to agree on the right prescriptions.

But at least the Senate last year passed, by 95 votes to four, an omnibus crime bill that now awaits action by the House, while both chambers approved waiting limits for purchasers of handguns. This measure was now the Brady Law, Mr Clinton said with pride as he clapped Mr James Brady, the former presidential press secretary, who from his wheelchair in the galleries proudly waved his walking stick back in return.

There is always a risk of overloading Congress, especially in the run-up to mid-term elections. It is possible now that fixation with crime will make harder action on health and welfare reform, both immensely complicated and controversial, as well as other items on the president's heavy agenda such as worker retraining, campaign finance reform, more controls on lobbyists and the creation of an information superhighway.

But, from his Tuesday night pulpit, Mr Clinton was brooking no delay. "Our deepest and most profound problems" could not be left to "petty political fighting". If words were all – and he used them very well – he would be home and dry.

Changing of the old guard may shift power structure

By George Graham in Washington

For many senior members listening to President Bill Clinton's State of the Union speech in Congress on Tuesday night, it was the last time they will have front row seats for such an address.

Members are retiring or seeking other office in record numbers, driven out by age, cynicism or fatigue. Many others face a hard fight to win re-election.

Complaints that the Congress has become more partisan and less rewarding are widespread among those who have chosen to leave.

"Partisan politics and negative campaigning have so poisoned the system that reasoned, good faith debate on policy is now the exception when once it was the norm," said Congressman Austin Murphy of Pennsylvania. Congressman Al McCandless of California said he simply wanted a leisurely breakfast and more time with his grandchildren.

The 1992 election had already brought in a crowd of new faces: 110 members of the House of Representatives and 14 senators.

But so far this session 19 House members with 348 years of legislative experience between them – 14 of them Democrats – have announced their retirement after the November 8 election. Six senators are also retiring.

Another seven House members are giving up their seats to run for governor in their home states, while nine more are trying to move up to the Senate.

Democratic leaders expect to lose some seats in November, a normal phenomenon for the president's party in the first two-yearly congressional election after a presidential victory.

But the projected swing of about 25 seats – a figure both parties agree on – would not be enough to change control of the House, where the Democrats now hold 257 of the 435 seats.

In the Senate, too, the Republicans are expected to gain another two or three seats in 34 elections that will be fought this year, but this would again not break the Democratic majority, now 56 out of 100 senators.

> 'It is time for younger people to take the reins and lead us into the next century'

The departures include some of the most influential members of the House: from Mr Bob Michel of Illinois, the Republican leader, to Mr William Ford of Michigan, chairman of the education and labour committee.

They also number some of Congress's most colourful and principled members, such as Mr Jake Pickle, a protégé of former President Lyndon Johnson.

The exodus could affect the power structure of Congress, where committee chairmanships are critically dependent on seniority. Three of the six judiciary subcommittee chairmanships will come open, and another nine subcommittee chairs will be left empty – besides Mr Ford's chairmanship of the full education and labour committee.

Even more sweeping changes could be under way, as several senior members could be persuaded to withdraw, or be defeated outright, by powerful challenges in their party primaries.

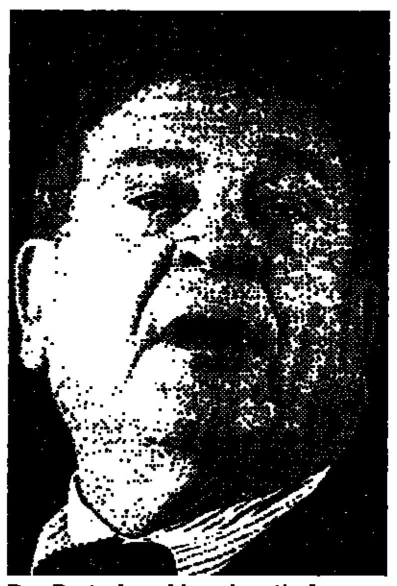
The most important figure under attack is Mr Dan Rostenkowski, who holds sway over tax matters as chairman of the ways and means committee. Still the target of a Justice Department investigation, Mr Rostenkowski's popularity in his Illinois district has rarely been lower.

Mr Jamie Whitten of Mississippi, whose 52 years in the House are already the longest in history, has been urged by many of his colleagues, who have already eased him out of the important appropriations committee chairmanship, to go gracefully.

If he does not, he faces the most difficult race of his career against Mr Tim Ford, Speaker of the Mississippi state legislature.

On the other side of the political divide, Mr Phil Crane of Illinois, rated by Roll Call, the Capitol Hill village newspaper, as the most extreme right winger in the House, faces a tough primary.

They all might take the advice of Congressman Douglas Applegate of Ohio, who is calling it quits after 17 years in Congress. "It is time for younger people to take the reins of government and lead us into the next century. I would further suggest that other older members of Congress consider this, as well," he said.



Dan Rostenkowski: under attack

Bob Michel: influential

Budget forecast to cut deficit to $180bn

By Michael Prowse in Washington

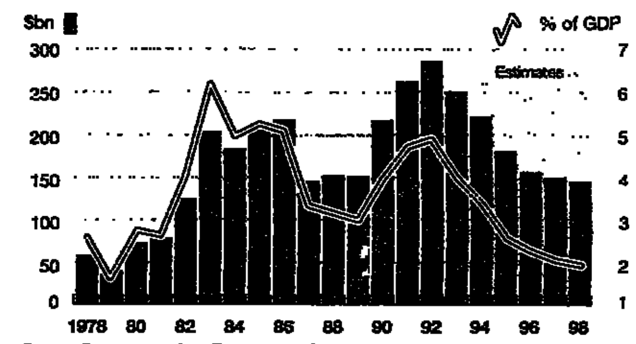
Next year's budget deficit will be less than $180bn (£120bn), President Bill Clinton predicted in his State of the Union address, 40 per cent lower than the $300bn many analysts were forecasting when he assumed office last year.

The president said the budget for fiscal 1995, which begins in October, would be "one of the toughest budgets ever presented to Congress". More than 300 government programmes would be cut and 100 eliminated.

The full budget details will not be available until early next month. In addition to tax rises and spending restraint enacted last year, the rapid decline in the deficit appears to reflect a combination of factors. These include an unexpectedly sharp deceleration in healthcare inflation, a strong cyclical recovery which is boosting tax receipts, and lower than projected long-term interest rates which are reducing debt service costs.

Figures from the Bureau of Labour Statistics show that medical care prices rose at an annual rate of 4.4 per cent in the fourth quarter of last year. For 1993 as a whole the increase was 5.4 per cent, twice the overall rate of inflation but sharply down from 9.6 per cent as recently as 1990.

The shrinking deficit



Source: Department of the Treasury and Salomon Brothers estimates

Partly as a result of slowing healthcare inflation, officials have reduced projected spending on Medicare and Medicaid, the public programmes for the elderly and poor, by about $45bn over the next five years.

The most important factor reducing the deficit in the short term was the strong cyclical economic recovery, said Ms Susan Hering, of Salomon Brothers. Growth was boosting tax receipts, especially from the corporate sector, and cutting increases in transfer payments, for example on food stamps and unemployment insurance.

A deficit of $180bn or less in fiscal 1995 compares with last year's White House projection of a $296bn deficit, if no action were taken, or $200bn after enactment of last year's budget. But it would represent an extension of a well-established trend. The deficit peaked at $290bn in fiscal 1992 – less than the once-feared $350bn – and declined to $255bn in fiscal 1993.

Private sector analysts are projecting a deficit of $220bn-$240bn in fiscal 1994, against official projections last year of $262bn.

But whether a permanent improvement is secured will depend mainly on the durability of the slowdown in healthcare spending. That in turn will depend on the nature of reforms enacted this year.

Smugglers force Canada to cut cigarette taxes

By Bernard Simon in Toronto

Canada's federal and Quebec governments have bowed to the commercial and political costs of rampant cigarette smuggling across the US-Canada border and look set to reverse a tradition of ever-higher taxation on tobacco products.

Both Quebec and Ottawa have promised to cut and perhaps even abolish the high federal and provincial taxes which are widely blamed for the surge in cigarette smuggling.

The problem is most acute in Quebec, where the Canadian Tobacco Manufacturers Council estimates that about two-thirds of all cigarette sales are contraband.

A group of Quebec convenience store owners, whose business has been ravaged by smuggling, earlier this week flouted the law by setting up an illegal market north of Montreal, where they sold cigarettes at the smuggled price of C$20 (£10.20) a carton, compared with the fully-taxed retail price of C$40-C$46.

Governments have become increasingly concerned at the social and political ramifications of smuggling. Much of the trade, which is centred on the St Lawrence River and Indian reserves which straddle the US-Canada border, has fallen into the hands of organised crime.

Some Indian communities have begun to manufacture their own cigarettes, and contraband products are starting to find their way on to retailers' shelves in counterfeit packaging.

The ready availability of cheap, smuggled cigarettes is also believed to have boosted consumption. Contraband packs carry less prominent health warnings.

Ottawa and the provinces have so far failed to agree on a co-ordinated tax cut. Ontario, which collects C$800m a year from tobacco taxes and is struggling to contain a yawning budget deficit, is reluctant to forfeit a sizeable source of revenue.

But the smuggling issue has gained a political dimension in Quebec, where separatists argue that the francophone province could easily put a stop to the trade if it had greater autonomy from Ottawa.

Tobacco manufacturers estimate that taxes on cigarettes will have to be chopped by about two-thirds to compete with contraband goods.

They are also banking on a rise in US cigarette taxes within the next year to narrow the price gap between the two countries.

US to act on cable TV price loopholes

The US Federal Communications Commission is expected to revise its rules on cable television pricing at a meeting next month, writes George Graham.

The FCC has been criticised for leaving too many loopholes for cable TV operators to exploit in the rules it wrote implementing a 1992 law designed to crack down on overpricing.

That law, the only legislation on which former President George Bush saw his veto overridden by a two-thirds majority of Congress, authorised the FCC to set reasonable rates for the majority of cable companies who hold a monopoly in their district.

The issue was a popular vote-getter in the 1992 election, striking a chord with customers. But many consumers felt the immediate effect of the legislation was higher rates, not the $1bn (£670m) in cuts they had been promised.

An early survey suggesting that as many as 50 per cent of customers might face higher bills for their cable TV captured widespread attention. A later study of 14 of the largest operators showed, however, that rates had fallen for 68 per cent of customers. Nevertheless, many cable companies have dodged the FCC rules by manipulating tariffs.

'Big Bang' for Chile capital markets

David Pilling on reforms in Latin America's leading financial system

Chile boasts the most sophisticated domestic financial market in Latin America – a development that has helped the country achieve the highest savings rate in the region. A new law passed by Congress this week, lifting many of the remaining market restrictions, is expected to help keep it that way.

"We believe this to be one of the most important financial reforms in many years," said Mr Julio Bustamante, chief regulator of Chile's fast-growing pension funds. "This is a project that took us more than two years to draw up and one that spent more than a year in parliament undergoing a process of refinement."

The new law broadens investment choices, introduces new financial instruments and seeks to apply international standards of regulation.

Impulse for reforms came from a desire to manage better the savings administered by Chile's private pension funds (AFPs) and to tap their resources for social needs such as infrastructure and housing.

AFPs, privatised in 1981, control $15bn in savings, more than 35 per cent of Chile's gross domestic product – and expected to reach 80 per cent by the turn of the century. Under legislation introduced in the early 1980s, employees are required to save at least 10 per cent of their wages in one of these funds.

AFPs have complained for years that over-cautious regulations have starved them of investment opportunities and dented their ability to increase profits. Pension funds and associated life insurance companies are restricted to investing 30 per cent of their capital in blue chip stock. In practice, they have concentrated on only a handful of shares in the electricity and telecommunications sectors.

New regulations will allow AFPs gradually to extend their investments to most of Santiago's nearly 300 listed companies, provided these satisfy certain criteria. It is hoped that this will provide a financial fillip to small and medium-sized companies, and coax some of Chile's conservative – often large – family-run concerns to float on the stock market.

"I think the more companies that are eligible for AFP investment the more interest there will be among medium-sized private companies to open up to the market," said Mr Juan Andres Camus, managing director of Celfin, a local investment bank.

New instruments are also to be introduced, such as mortgage-backed securities, convertible bonds, and revenue bonds. It is hoped that the latter will encourage private capital to play a much larger role in financing badly needed infrastructure such as ports and roads. Mr Bustamante estimates that, of $500m worth of infrastructural projects planned for the next two years, institutional investors could provide up to 40 per cent.

Scope for AFP provision of venture capital and for coverage of risk through options, futures and swaps will also be expanded.

Furthermore, AFPs and other institutional investors, such as mutual funds, will be able to expand investments abroad, currently limited to 3 per cent of their portfolio in AAA-rated bank debt and gilt-edged securities. This ceiling will be raised over four years to 12 per cent, permitting AFPs to invest more than $1.3bn abroad.

"When a country is on the road to development, it doesn't only export goods – but also services and capital," said Mr Bustamante.

The range of foreign investment options will be widened to cover equity and bonds in investment-grade companies. AFPs will also be permitted to cover risk through currency and interest rate swaps, but will not be allowed to use such instruments for speculation.

Santiago stock exchange: financial fillip Ken Wam

Along with greater flexibility comes a tougher regulatory framework aimed at clamping down on abuses of new freedoms by Santiago's tight-knit business community. Reforms devote much space to defining insider dealing – still a novel concept in much of Latin America – and set minimum prison sentences for specified offences.

There is also an attempt to erect walls between pension funds, brokerages and listed companies on whose boards the same faces tend to crop up again and again. Under the new legislation, for instance, brokerage houses whose executives are board members of specific companies will be obliged to resign their directorship or cease trading in shares of that company.

Although rules pertaining to conflict of interest were softened by Senate amendments – after lobbying from interested parties – Mr Bustamante feels that the final result is satisfactory. "It will force a lot of changes," he said.

The legislation does not address foreign investment restrictions, such as a one-year repatriation period and high levels of withholding tax on stock market gains. But there are signs that the new administration, due to take over in March, may be willing to do so.

NEWS: UK

Oftel urged to compare UK-US phone markets

By Alan Cane

The House of Commons Public Accounts Committee - the body of MPs that scrutinises public spending - has urged Oftel, the telecommunications watchdog, to ensure that British Telecommunications' rate of return on capital employed remains "within acceptable levels".

In its first examination of a utility industry regulator, it says that Oftel should compare the UK's dominant telecommunications operators with the leading US telephone companies as a basis for assessing BT's performance.

It goes on: "These comparisons should include the rate of improvement in efficiency. As improved efficiency has a bearing on charges, we recommend that such information is made available to customers in order that they may judge the position for themselves."

The PAC was clearly concerned whether the consumer was getting a fair deal. Oftel's evidence was that BT's service had improved and that its efficiency came close to the best of the US telephone companies. Oftel had set an acceptable level of return on capital for BT of between 17.5 per cent and 19 per cent.

But in the years 1987-1992, Oftel agreed that BT had made £1.6bn more in profits than the benchmark dictated.

BT yesterday disagreed that its profits were unacceptable. It said the formula (retail prices index - 7.5 percentage points) which dictates its overall pricing was universally recognised as tough.

The report covers a broad range of topics and is especially strong on telephone services for the poor and handicapped, arguing, for example that Oftel should promote Typetalk computerised services to help the deaf.

The PAC also warned that the "999" emergency call service should not suffer from the increase in the number of operators licenced to offer telecommunications services.

Mr Don Cruikshank, Oftel director-general yesterday welcomed the report, saying it identified priorities and directions for the regulator.

BT, however, pointed out the PAC investigation had been completed last May; its conclusions were based largely on opinion rather than fact and it was already out of date, many of the recommendations - on residential call pricing, for example - having already been implemented.

Office of Telecommunications: Licence Compliance and Consumer Protection. Committee of Public Accounts Sixth Report.

Classic extends musical frontiers

By Raymond Snoddy

Classic FM, the commercial classical music radio station, plans to use a satellite to provide a service to all of Europe.

The decision is linked with last week's announcement that Classic had been awarded one of two new FM frequencies in the Netherlands by the Dutch government.

Satellite is the easiest way to deliver the Classic signal to the Dutch terrestrial radio transmitters, but it will also mean that Classic will be available to individuals across the whole of the Continent.

"It certainly makes broadcasting sense and it makes commercial sense," Sir Peter Michael, Classic FM chairman said.

As well as using the latest satellite technology Classic, whose shareholders include Time Warner, the world's largest media group, Associated Newspapers and the GWR local radio group, plans to apply for more broadcasting licences across Europe.

Sir Peter expects the process of de-regulation of broadcasting to continue across Europe and believes that classical music is one of the most international of all media sectors.

Classic, launched in 1992, is expected to apply for a new radio licence coming up in Finland and is interested in other Scandinavian markets.

Sir Peter emphasised that Classic is also prepared to look at joint ventures with Continental partners.

As part of its campaign to win the Dutch licence - there were 27 applicants for the two frequencies - Classic enlisted the support of Dutch musicians.

As a result, leading Dutch orchestras such as the Concert Gebouw are likely to feature on Classic FM.

Arts Council chairman raps government 'neglect'

By Kevin Brown,
Political Correspondent

Lord Palumbo, the outgoing chairman of Britain's Arts Council, yesterday delivered a stinging attack on the government's "irresponsible neglect" of the arts.

He said cuts over the next three years would reduce funds for artists by 12 per cent, virtually reversing a 15 per cent increase since 1989.

"This amounts to irresponsible neglect of a precious national resource which generates a threefold return for every pound of taxpayers money invested in it," he told the Lords during a debate on the arts.

"The government's timing is impeccable, coinciding with a contemporary decline in available funds for the arts from its mainstays of local authorities, box office, sponsorship and charitable foundations.

"I am well aware of the vital necessity to constrain public expenditure, but success feeds upon itself, and it should be encouraged and built upon, not penalised."

Lord Palumbo's criticism of the government reflects anger in the arts establishment over a £3.2m cut in the Arts Council budget, announced in November.

In what amounted to a comprehensive indictment of the government's arts policy, he also accused ministers of wasting £6m since 1989 in a failed attempt to achieve value for money.

"There has never been a moment in those five years when we have not been reviewed, counter-reviewed, surveyed, [and] appraised tested against market forces.

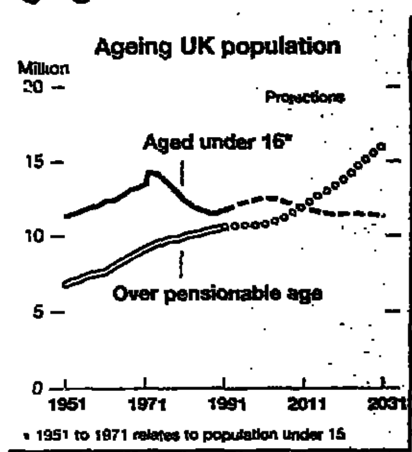
"That has cost a great deal in time and effort, and although the calculation is imprecise, it has probably cost the taxpayer something in the order of £6m."

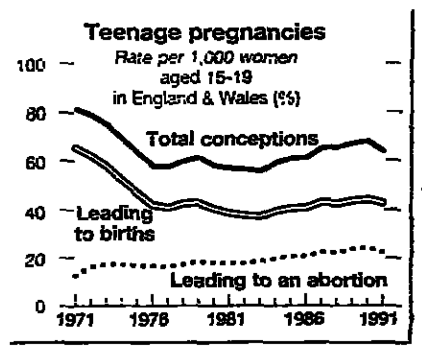
Lord Palumbo, who will be replaced in March by Lord Gowrie, a former Conservative arts minister, said the Arts Council was "not a perfect institution".

"Mistakes are sometimes made, and when they are we regret them. Equally on some occasions the blame we receive is unjust," he said.

Lord Palumbo also said the decision to divert funds from the performing arts to the refurbishment of London's Albert Memorial rather than use national lottery profits was "an act of the purest folly".

A snapshot of Britain: changing face of a nation

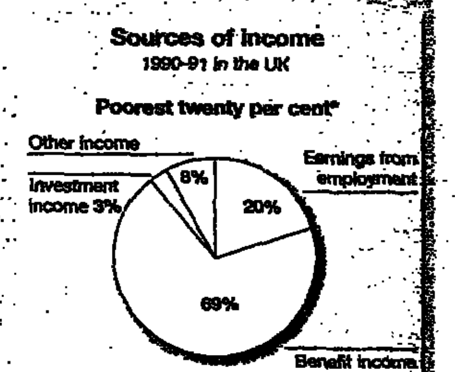


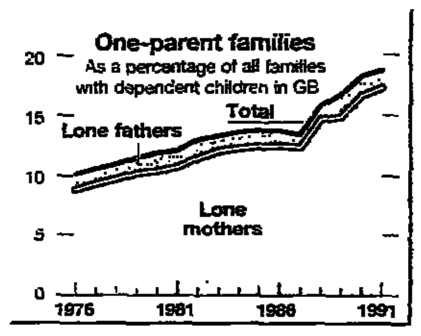


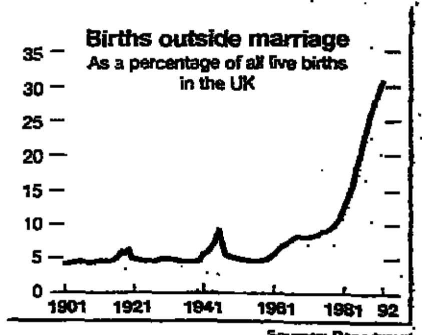
Occupation of head of household

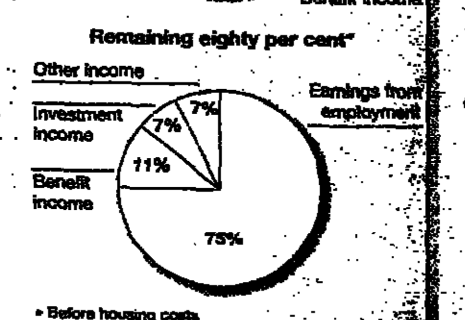
UK by income* 1990-91	Poorest twenty per cent	The rest
Professional	1%	7%
Employers and managers	5%	17%
Non-manual	5%	17%
Skilled manual	20%	24%
Semi-skilled manual	9%	9%
Unskilled manual	4%	2%
Other employed	0	1%
Retired	26%	13%
Unemployed	30%	9%

* Before housing costs









Sources: Department of Social Security, Office of Population Censuses and Surveys

Extent of social change underlined

By Alan Pike,
Social Affairs Correspondent

The least well-off 20 per cent of Britain's population in 1990-91 derived 69 per cent of their income from state benefits, with only 20 per cent coming from employment, an article in Social Trends shows.

Earnings from employment provided 75 per cent of the income of the remaining four-fifths of the population, with benefits providing 11 per cent.

More than a quarter of the poorest group at the time of the study were retired. When added to others who were not working - either because they were unemployed, non-working single parents or had long-term illnesses - people without work make up almost 70 per cent of the poorest group.

Two-thirds of the 3m children in the poorest group lived in families that did not contain a full-time worker, compared with 11 per cent of children in the rest of the population.

An apparently unequal struggle between the conventional family and social and demographic change is shown today in Social Trends, the government's annual compendium of British life.

Political controversies over crime and the future of the welfare state have brought the role of "family values" into sharp focus. But Social Trends shows that, as the debate continues, so does the decline of the traditional family.

Couples with dependent children formed the majority of households as recently as the early 1970s. By 1992 they constituted less than 40 per cent, and it is now increasingly likely that such couples will not be married.

Single people now account for more than a quarter of all households; there has been a threefold increase in the proportion of people living alone during the past 30 years.

The biggest recent growth has been among men of working age, but the ageing of the population is another factor that will fuel a continuing increase in single-person households. By 2031, there will be more than 16m people of pensionable age in Britain's population - more than double the number in 1961.

Recent years have seen an even more striking rise in the proportion of lone-parent families - these have quadrupled since the early 1960s. The government's General Household Survey, also published this week, shows that 21 per cent of families were headed by lone parents in 1992.

Allied to this change is Social Trends's soaring graph showing the remarkable rise in births outside marriage. Almost one in three births are now to unmarried mothers - an increase from the one in 20 level that, apart from the two world wars, had persisted throughout the century until the 1960s.

Divorce, as well as births outside marriage, is contributing to the growth in single parent households. Marriages have fallen by nearly 16 per cent over the past 20 years, while divorces have more than doubled.

Some politicians hope that a renewed appreciation of the importance of community involvement will fill the gaps created by fragmenting family relationships. Evidence in Social Trends suggests that this may be wishful thinking.

Surveys show that only 4 per cent of the population have taken an active part in a political campaign. The proportion of churchgoers is, at 15 per cent, lower than in many other European countries.

Social Trends 24. HMSO.

NEWS: UK

Pressure mounts over aid deal

By James Blitz and Jimmy Burns

The British government was yesterday under increasing pressure to reveal more details about its controversial donation of aid to Malaysia in the late 1980s after a powerful House of Commons committee decided to launch a new investigation into the matter.

The all-party Select Committee on Foreign Affairs said that it would conduct inquiries into the decision by the Thatcher government in the late 1980s to give Malaysia £234m for the construction of a hydroelectric dam on the Pergau river.

The decision was officially opposed by a top Whitehall official and described by a government accountants last year as "a very bad buy".

The committee's announcement came as ministers revealed for the first time that the offer of aid had been linked to sales of £1bn worth of defence equipment to the Malaysian government. Labour MPs claimed last night that such a linkage could be illegal under British law.

There were also signs that Britain's aid contribution had been used on a number of other construction contracts, including 12 hospitals.

In a parliamentary written answer, Mr Douglas Hurd, the foreign secretary, made the first formal admission that there had been a link between the general offer of aid to Malaysia and the signing of a £1bn arms deal.

He said that on a visit to Kuala Lumpur in 1988, Mr George Younger, then defence secretary, had signed a protocol in which the Malaysian government had set out its intention to buy defence equipment from the UK.

According to Mr Hurd: "The protocol included a reference to 'aid in support of non-military aspects under this programme'." Mr Hurd stressed that "after consultation with ministerial colleagues in London" the link was later officially denied. Lord Younger wrote to the Malaysian minister of finance in June that year to say that aid could not be linked to defence sales.

"As a result the issue was not taken up in the memorandum of understanding on defence procurement which the British and Malaysian PMs signed in September 1988," Mr Hurd said.

However, Mr Hurd's comments run counter to Lord Younger's recent claims that there had only been a "verbal" linkage of the arms deal with the aid programme. It is also understood that Mrs Thatcher was forced to write a toughly worded memorandum to ministers outlining her concern that the aid deal should not be linked to the sale of arms.

The Foreign Affairs Committee should be able to summon Mr Hurd later this year to answer questions on this.

Major seeks to restore his grip on government

By David Owen and Philip Stephens

Mr John Major will tomorrow attempt to relaunch the government's troubled "back to basics" initiative in a speech seen as the start of a concerted push to rebuild his political authority.

The prime minister will use a visit to the north of England to set out his "prospectus for 1994" amid mounting pressure for him to regain a grip on the government after a month of turmoil.

Downing Street said Mr Major would use the speech to explain his policy priorities for the rest of the year.

Meanwhile, the war of words at Westminster over tax and spending priorities rumbled on, with senior Conservatives disputing a claim by Mr Gordon Brown, the shadow chancellor, that Labour had made no public spending commitments whatsoever.

Mr Michael Portillo, the chief secretary to the Treasury, promptly accused Mr Brown of "stepping on the garden rake", while Mrs Virginia Bottomley, the health secretary, wrote to Mr Brown challenging his claim on the grounds that Mr David Blunkett, her opposite number, had said Labour aimed to take Britain into the "seven per cent club" of countries which spent more than 7 per cent of their gross domestic product on healthcare.

Yesterday's exchanges on Labour's spending pledges came after Mr Brown had said in a morning radio interview that the party had "no commitment to spend money on anything".

At the same time Mr Kenneth Clarke, the chancellor, faced heavy criticism from some right-wing Tory MPs for his apparent failure to react quickly enough to Labour's attack on the government's planned tax increases.

Mr Portillo, his deputy at the Treasury, was being attacked from the left of the party for seeking to raise his own profile ahead of any challenge to Mr Major's leadership.

Amid a general mood of feverish disenchantment on the Tory backbenches, right-wing MPs were also speculating about the possible candidacies of Mr Michael Heseltine and Mr Douglas Hurd if Mr Major is threatened.

Plea to Clinton by Caterpillar unions

By Robert Taylor, Labour Correspondent

Two British unions are to ask President Bill Clinton to urge Caterpillar, the US plant and machinery maker, to restore union rights to the white-collar workforce in its production plant near Leicester.

Caterpillar has offered staff £500 each and improved benefits in return for giving up collective bargaining and moving on to individual employment contracts.

Derecognition of the unions – the technicians' union MSF and the white-collar Apex section of the GMB general union – is due to take place on April 26. Last week a majority of the workers voted in a company organised ballot to accept Caterpillar's terms.

Union leaders believe the company intends to make a similar offer to its 600 manual workers who are represented by the AEEU engineering and electrical union. If they agree, all Caterpillar UK operations would be non-union.

The unions say the company has breached article 42 of the International Labour Organisation code on multinationals, which says unions should "enjoy adequate protection against any act of interference in their functioning or administration" in the workplace.

They also accuse Caterpillar of contravening the Organisation for Economic Co-operation and Development code of conduct for multinationals.

The Geneva-based International Metalworkers Federation is also calling on the Clinton administration to put pressure on Caterpillar.

"We hope influence will be brought to bear to bring about an amicable and lasting resolution of our differences with Caterpillar in order that the company can prosper in the future," said an MSF official.

Britain in brief

Unit trust industry has 'best year'

Private investors have been abandoning building societies and rushing into equities in the face of the lowest interest rates for 16 years.

The unit trust industry yesterday said that 1993 was its best year ever. Net sales amounted to a total of £9.1bn compared with only £648.9m in 1992.

The new record had already been reached by the end of September 1993, when net sales in the year to date had reached £6.91bn, exceeding the 1987 figure of £6.33bn, the previous record for a calendar year. Of the £9.1bn in net sales, private investors accounted for £5bn and 61 per cent of this was through personal equity plans, which offer tax-free returns to private investors.

Oil production at 5-year high

North Sea oil production in December reached its highest level since the 1988 disaster which destroyed the Piper Alpha platform, figures published yesterday by the Royal Bank of Scotland show.

December production of 2.33m barrels-a-day was about 1 per cent up on November. Fourth-quarter production registered a 14 per cent rise over the same period in 1992 as new fields came on stream.

Oil production for 1993 as a whole reached a five-year high.

Gas production averaging 6.255bn cu-ft-a-day reached a three-year high. Buoyant gas prices helped to boost the average daily revenue from North Sea oil and gas production last year to £33.5m, a 13 per cent rise on the 1992 average of £29.7m.

MPs to probe milk reform

The delay in opening up the £3.3bn milk market in England and Wales to competition will be investigated next week by the cross-party Commons agriculture committee.

The committee said yesterday that it will hold a special session to look at why market liberalisation had been put back from April to November.

Government objections to the Milk Marketing Board's plans to turn itself into a voluntary farmers' co-operative have held up the introduction of competition. The committee will hear evidence from the board, agriculture ministry officials, the Dairy Trade Federation and the National Farmers' Union.

Bristol to US air link planned

Aer Lingus is to start the first scheduled service between Bristol and New York from April 3. The daily service, from Bristol's Lulsgate airport to JFK International Airport, will be via Dublin.

Meanwhile, USAir is to transfer its domestic services at JFK. The airline is switching to the British Airways terminal on March 1. USAir is BA's partner in the US.

Mr George Cooper, BA's regional manager for domestic operations, said the switch would transform arrangements for British travellers, with quicker connections to Baltimore, Charlotte, Pittsburgh, Philadelphia and other cities on the USAir network.

US blamed for TV violence

The "majority" of the violence and swearing on British television is blamed on American programmes in a report yesterday by the Broadcasting Standards Council, the government watchdog. Satellite TV is said to be particularly at fault.

Soccer match to go ahead

German authorities yesterday decided that a soccer friendly against England, controversial because it coincides with Hitler's birthday on April 20, would be played in Berlin.

Hamburg had rejected the match because of fears that it could encourage violence from German neo-Nazi groups.

● Rangers and Celtic football clubs clashed yesterday after league champions Rangers announced a ban on Celtic supporters at the next game between the clubs at Ibrox in Glasgow on April 30.

CORRECTION

Scott inquiry

The ministerial meeting about exports to Iraq chaired by Mr Douglas Hurd referred to in yesterday's FT was on July 19 1990, not June as stated.

A few heads in the European sand

Philip Stephens on Tory caution over the coming election battle

Europe is reappearing on Britain's political horizon. Groans of weary resignation are already audible in ministerial offices across Whitehall.

The proximate cause is the approach of the elections in June to the European parliament. After all, the outcome could decide Mr John Major's future. He can hope to ride out a bad result, but if Conservative losses are as disastrous as some are already predicting all bets will be off.

There is a more fundamental concern among those ministers and officials who can still find the odd moment to think about policy as well as internal Tory party politics.

As Germany and France begin to put together the pieces after last year's turmoil in the exchange rate mechanism, the government's post-Maastricht triumphalism is beginning to fade.

Maybe the rest of Europe has not after all abandoned its federalist ambitions in favour of Britain's intergovernmental agenda. With the franc now back at its former ERM rate against the D-mark, perhaps the idea of European monetary union is not quite so fanciful after all.

The way that Paris has handled the franc since the near-break up of the ERM last summer has confounded those who argued that sterling's ejection had been no more than an earlier symptom of its inevitable disintegration.

France never accepted the franc's devaluation was permanent. Unlike the British Treasury it did not replenish its foreign currency reserves at the devalued rate. Now the franc has recovered it is doing so – without the billions of dollars in losses suffered by the UK. There is talk of the ERM returning to its narrow bands as soon as economic recovery is entrenched.

The fear in Whitehall is that the recovery will bring a rekindling of the integrationist ambitions of its partners in the approach to the intergovernmental conference due in 1996.

The repeated assertion of Mr Douglas Hurd that Maastricht's intergovernmental "pillars" for foreign, defence and home affairs policies had set the European Union in a new direction no longer carry quite the same conviction. Nor does Mr Major's description of EMU as having "the quaintness of a rain dance and about the same potency".

None of this has yet been discussed in detail by senior ministers. The wounds inflicted on the Tory party by Maastricht are still raw. As one (pro-European) member of the cabinet puts its: "The hope is that if we don't talk about it, it might just go away."

The same nervousness envelops the preparation of the Conservative manifesto for the European elections.

Mr Hurd is one of the cabinet's grown-ups. But in an untypical admission of weakness he has decreed that even the membership of the committee charged with drafting the manifesto must remain secret. The Tory right might otherwise decide it was under-represented.

The only thing that ministers are prepared to say publicly about the manifesto is that it will cast the Conservatives as alone among the three largest parties in opposing something called a federal Europe.

It would be unfair though to suggest the Tories are alone in burying their heads in the sand. There are few signs that the opposition parties have thought through the implications for Britain of the 1996 conference.

The Liberal Democrats are busy toning down the undiluted commitment to European union on which they fought the general election. The judgment is that singing the praises of Brussels is not the best way to win seats in the European parliament from the Conservatives.

If his shadow cabinet colleagues are to be believed, Mr John Smith plans to treat the European elections as a referendum on Mr Major's tax record. Though there will, one supposes, be the odd reference to the social chapter and to the need for concerted cuts in European interest rates.

Europe has so far been for the Labour party a convenient staging post on its long journey to electoral respectability. But at some point it will have to develop a more detailed approach than one of simply approving all things European.

MANAGEMENT: MARKETING AND ADVERTISING

Michael Skapinker examines how Airtours uses data on its competitors to maximise profitability

A flight path to good pricing

The *staff of* the late bookings section of Airtours, the UK's *second biggest* holiday company, are looking pleased. They have *just* managed to raise the price of Caribbean holidays by £50.

Poring over banks of screens at Airtours' headquarters in rural Helmshore, Lancashire, the 10-strong Airtours team bears more than a passing resemblance to a group of City of London dealers. Their average age is 22 and they arrive at work at 7am.

What they are doing, however, is not trading currencies or selling bonds. On the basis of up-to-the-minute information about their competitors in the UK's £4.9bn air holiday market, they are seeking *to adjust their own prices to maximise* profitability.

Travel agents, whether multiple chains or independent shops, look up destinations on screen. The prices they see are set and communicated to them by the tour operators, which arrange flights and accommodation. Thomson, the biggest travel group, and Owners Abroad, the number three, change their holiday prices every night. Airtours changes its prices several times a day.

Along with the rest of the holiday industry, Airtours makes much of its cost-cutting campaigns. *But like* all companies, it strives to charge whatever the market can bear, pushing prices up when demand is strongest.

Late bookings indeed play a central role in determining a holiday company's profitability. The companies *begin selling* summer holidays in the August of the summer before, *when they publish the first edition* of their brochures. In January, they publish a second edition, with either higher or lower prices, depending on how sales are going and what competing companies are doing.

It is in the last eight weeks before departure that price competition *becomes most intense. David Cross*land, Airtours' chairman, says a third of holidays are sold during this period. There is also a winter late-booking period, when holidaymakers make last-minute purchases of skiing holidays and trips to the *Caribbean*.

Apart from trying to get the highest price possible, the late booking team tries to ensure that all the company's airline seats are filled.

Tour operators pay for most of their accommodation in holiday resorts only *if they use it, although they do guarantee to fill a certain* proportion of beds. If bookings are disappointing, they do not end up owing hoteliers large sums of money.

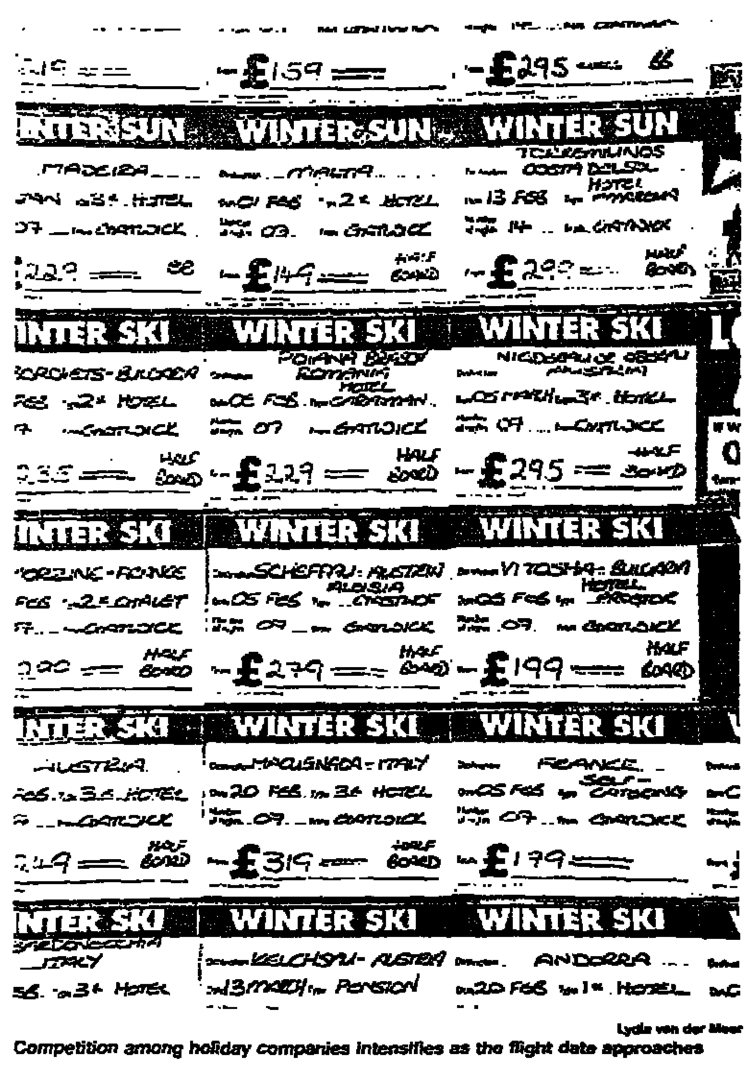
Airline seats are another matter. Airtours flies some of its customers on its own aircraft. The rest go in seats chartered from other companies. The seats have to be paid for whether they are filled or not. *Flights that depart with empty* seats represent a loss to the tour operator.

The Airtours late bookings team's first task of the morning is to look at the prices competitors have set overnight. They do this by using *the computer information available* to travel agents. Airtours owns the Going Places travel agents' chain which sells holidays organised by other operators as well. This gives Airtours access to other operators' prices. Crossland says Airtours is working on a *system which will enable it to use Going Places' sales* to assess how well competing operators' holidays are selling, as well as the prices being achieved.

Andrew Crossland, the 27-year-old head of the late bookings team and the chairman's son, says Airtours will not necessarily do the same if a competitor drops prices on holidays *to a particular destination.*

The competitor's price reduction could be temporary: the company might be attempting to fill a particular aircraft or ensure it can sell its guaranteed beds. On other occasions, the price drop might signal an *attempt* to take market share from rivals like Airtours. "The trick *is to know when to follow the mar*ket," Andrew Crossland says.

The team says it gets to know the psychology of rival price setters, as well as of customers. When the British weather is miserable, for example, prices of sunshine resort holi*days tend to be firmer.*



Lydia van der Meer

Competition among holiday companies intensifies as the flight date approaches

Hanson mini-epic returns

There was a time when Charles Fursyth King ruled Wall Street. Or, as he once put it: "Ruled Wall Street? I *am* Wall Street." He built his financial empire from nothing, only to see it crumble with the collapse of the market.

After his death, friends and associates attempted in interviews to explain where he had gone wrong. Said one: "King's mistake was in preferring paper money to paper itself - he should have invested in timber." There were those who considered he should have gone for other basics such as bricks or coal.

Some thought the clue that explained King's failure lay in his single dying word . . . Hanson. It was the one thing he wished he had had.

This fictitious drama, clearly inspired by the 1941 Orson Welles movie Citizen Kane, unfolds at break-neck speed in an 80-second commercial – the first corporate television advertising from the Hanson conglomerate since 1988. The ad, supported by press advertising, has already run in the US and is now being shown in the UK.

For those who may be confused about what Hanson is trying to achieve with the ad, Steve Cooper, account director in London with Hanson's agency Lowe Group, explains: "We were looking for stature and impact. The use of any outside cultural reference tends to raise the stature and impact of a film. There's already a frame of reference people have which establishes a rapport."

The contrast between the financial speculator - King in the advertisement - and Hanson's interests in bricks, coal and timber, is intended to underline the conglomerate's solidity and its enduring interest in the companies it acquires, says Cooper.

Hanson's corporate spokesman puts it more succinctly: "This is an advertisement that is likely to attract attention, rather than be passed over by people who see an awful lot of advertising. And it's entertaining, too."

Diane Summers

Japan strikes a chord with Asian teenagers

South-east Asia is lacking homegrown talent, but Japan is ready to entertain, says **Emiko Terazono**

For years Japan's *entertainment* industry has been trying to reach out to a western audience, sending its starlets on a mission to perform in Las Vegas and Hollywood. But such efforts have been big flops.

Now, however, the industry has *discovered Asia. Along with the* country's manufacturers, Japanese *record companies, television* networks and artist management groups are turning to the rapidly growing Asian market.

Masahisa Aizawa, vice-president of Sun Music, a Japanese production agency, says the entertainment industry in Asia has not caught up with the rapid *economic growth and the deluge* of electronic hardware. "Asia's entertainment industry is behind Japan by about 15 years," he says.

Sun Music was surprised at the popularity of Noriko Sakai, one of its Japanese pop idols, among Taiwanese teenagers. Sakai recently became top pin-up star in Taiwan, prompting the agency to work with a Taiwanese television network to produce a drama starring the idol.

Until recently, Japan has been *excessively cautious about* exporting entertainment software *to Asia. Many of the older people* in south-east Asian countries still remember being forced to learn Japanese by the Japanese army in the second world war, and South Korea still bans Japanese songs and literature from its stores.

Younger Asians, however, crave news out of Tokyo. "Tokyo is for *Asia what New York was for Japan* 20 years ago," says Eisuke Saito, managing director of Amuse, another production agency, which organised concerts by Japanese artists in Beijing last year.

Such is the demand that video tapes of Japanese television programmes are sold in Taiwan video shops, Japanese soap operas are aired in Singapore and Japanese songs sung on karaoke machines.

Harry Kaneko of Pony Canyon, *a Japanese record company*, believes that the $1bn (£600m) *record market in Asia will grow* threefold in the next seven years. In contrast, marked growth in Japan's $4bn record market is unlikely.

Japanese entertainment-related companies are keen to cash in on such demand, and stress that there is little room for western *corporations.* "Japan is closer than the US or Europe, and besides, *similar physique of the Japanese* people brings us closer to Asia than Caucasians," says Aizawa. He also claims the rhythm and melody lines of songs in south-east Asia are basically the same.

Aside from bringing Japanese talent to Asia, the Japanese are eager to capture the Chinese-speaking market including Taiwan, Hong Kong, Singapore, Malaysia and Thailand, by offering *Chinese artists. Saito reckons the* global Chinese-speaking population *totals some 1.6bn.*

Many in the industry point out that Hong Kong and Taiwan are important strategic areas for subsidiaries to distribute software throughout south-east Asia. Pony Canyon is building a network in Asia to search for potential Asian pop and rock stars.

Japanese production agencies are searching for talent in China *to sell to the Chinese communities.* Production agency HoriPro, teamed with a Hong Kong agency, recently organised a nationwide amateur talent search contest in China. Events organised by local television stations were held in 19 regional cities. The semifinals and finals were held in Beijing, and broadcast live to other parts of Asia through Hong Kong's satellite Star TV.

Kazutaka Hori, vice-president of HoriPro, explains that the project was also backed by the Chinese authorities, since "China never really had its own stars and artists. They all came from Hong Kong and Taiwan".

Amuse has also arranged a contest, with the finals to be held this month. "We want to train and bring up people with talent for *the Asian market,*" *says Saito.*

Exporting Japanese software *and know-how in the* entertainment business has struck a chord with the Japanese hardware makers. Matsushita Electric Industrial is using Sakai of Sun Music to sell its electronic products in China and south-east Asia, while other consumer electronics companies are lining up to become sponsors of the China talent search contests.

A concern in the Japanese entertainment market is the absence of copyright protection in the region. Although China is trying to improve its enforcement of copyright law, more than 800 companies produce pirate cassette tapes. Others, such as some Taiwanese companies, have been blamed for distorting the legitimate market.

Japanese companies, however, *see the advantage of establishing* themselves in the region before *this problem is solved.* "Once proper laws on copyright are laid out, there will be profits that did not exist before," says Hori.

هكذا مع الآمل

"Would you tell me, please, which
way I ought to go from here?" she asked.
"That depends a good deal on where
you want to get to," said the cat.

Lewis Carroll,
"Alice's Adventures in Wonderland"

GE
move
USE

Unless you know what to do with it, information isn't knowledge. Or insight. Or the road to profit. It's simply a collection of data.

That's why today we want to introduce ourselves to you.

We're a new company dedicated to providing information solutions that will help you help your customers and run your business more efficiently. A company with a unique ability to help you get information, move it to where it's needed, and use its insights.

We're truly a new company. And yet we combine the strengths of both a global *computer* company with unparalleled capabilities in data collection and massively parallel processing, and the one company truly capable of allowing you to *communicate* any quantity of information to anyone anywhere in the world.

Who are we?

We'll give you a hint: our new CEO took the door off his office to demonstrate just how accessible he was going to be.

By the way, he is.

Now who do you think we can be? Turn the page. You'll see.

TECHNOLOGY

HarperCollins*Publishers*

COMPANY SNAPSHOT

Nature of business
HarperCollins is one of the largest English-language publishers in the world, formed in 1989 when William Collins and Harper and Row amalgamated under News Corporation. HarperCollins Manufacturing produces 67m books annually, 14m hardback books and 53m paperbacks. It occupies part of a 108-acre site north of Glasgow in Scotland.
Turnover: £30m.
Employees: 480, of whom 450 are users of the Mac-Pac computer system.
Key personnel: Eddie Bell, chairman and chief executive; John Fitzpatrick, managing director; Owen Mitchell, business development director; David Thomson, systems manager.

TECHNOLOGY FILE
Software: Mac-Pac is a modular system for manufacturing, written in RPG400 (an AS400 specific language), well suited to high-volume short runs. HarperCollins is using 15 modules of Mac-Pac Version 7.1, dealing with all functions from quotes through to shipment. There are 1,000 Mac-Pac users worldwide, 50 in the UK. HarperCollins uses the Expert Configurator more extensively than the other three UK users, which include manufacturers of marine pumps and injection moulds.
Hardware: IBM *AS400 Model F50*, running OS400 Version 2.2, with 23 Gigabyte discs (11.5GBytes mirrored). The system supports 105 VDUs, 22 PCs and 18 printers, with six remote laptops for home dial-up. The structured cabling system provides *15 miles* of fibre-optic cables carrying 100Mbits per second. All terminals can connect to all company hardware, to a maximum of 720 terminals.
Supplier: Mac-Pac was developed and supplied by Andersen *Consulting, which provided three* consultants to help in the configuration and development of the expert system.
Cost: £2m, including the software, hardware and consulting fees. Training and full-time involvement of in-house employees working with the Andersen consultants added an estimated £1m internal costs.

The printing industry presents unusual challenges to computerised manufacturing systems. **Claire Gooding** continues a series on getting the most out of software

Biography of a book

SOFTWARE AT WORK

Pick up a copy of Jung Chang's bestselling novel *Wild Swans* and the last thing you are likely to consider is the effort that went into printing it. But books, like motor accessories and widgets, have to be manufactured, and they present unusual challenges to computerised manufacturing systems.

Left-over pages from one book *cannot be used elsewhere*: each book comprises components that are useless in any other product. Prints are likely to be repeated, possibly in short runs, for which machines must be geared up.

HarperCollins Manufacturing produces *books from raw material to* finished product, using various grades of paper. Owen Mitchell, HarperCollins's business development director, considers book-printing a manufacturing process much like any other, equally subject to current *thinking* on just-in-time methods and low inventories.

On the shelf in Mitchell's office stand fat, glossy-covered hardbacks including *Wild Swans* and the memoirs of Lady Thatcher and Sir David Frost, reminders of the end-product *of his 400,000 sq ft factory*. "Our customers are the publishers, not the public. We make reprints or new titles to order for HarperCollins, our main customer, but also for Headline and Simon & Schuster [outside the US market], among others," Mitchell says.

A full remainder basket is bad news for author and publisher alike, and producing to demand ("make to order") introduces a delicate balancing act between resources. Getting it wrong means keeping the customer waiting, perhaps losing sales as interest in a book fades, while machines and staff work overtime, only to lie idle the next day.

To avoid this, HarperCollins now runs a computer integrated manufacturing (Cim) system called Mac-Pac, which includes a complex "expert system" that helps make decisions about scheduling.

"This division operates as a high-volume, make-to-order environment. One of the business reasons for moving in the Cim direction was *the pressure for just-in-time* manufacturing, small batches, and short lead times," says Mitchell.

In the early 1980s, most packaged software solutions were for make-to-stock and assemble-to-order processes – which are inappropriate for *books. Other* solutions came from low-volume "make-to-order" suppliers. "Getting behind this distinction was important, because every book is make-to-order, but we deal with more than 100 different titles every week."

On average, the factory copes with 1,250 component orders a week (about 10 per book). Components in a book include the bundles of printed pages (signatures – see Buzzwords), *illustrations*, covers, dustjacket, and perhaps also a ribbon-marker for diaries and bibles.

The paper for the paperbacks is stored four hours away. "We work as a manufacturing business, so in manufacturing terms, a routine diary is just as important as Sir David Frost's autobiography," comments Mitchell.

"Our experience in the past has been with batch computer systems, updated overnight and accessed for inquiries. What we have now is a system in which participants dictate the programme. Their actions make a difference. There are very few people who don't have a terminal – 450 users out of 480 employees," he adds.

The new system has developed gradually. Outside consultants have contributed, but it largely evolved from a painful process of self-examination that started in 1989.

"We challenged and changed the *way we do business as part of the* preparation for automation. The first question was whether we were ready for change, and the answer was no. We faced the fact that customers were not well served by the buffer times which were exposed. Inventories were no longer assets, but earned a black mark," recalls Mitchell.

"One of the first things to go was the shop-floor bonus which encouraged over-production of components unique to one order.

"We used Computer Integrated Business – our version of Cim – as a catalyst for change. From day one, I was concerned to get the message across that there would be more people problems than technology constraints," Mitchell says.

■ **BUZZWORDS**

EXPERT SYSTEM takes the principles of programming (*If* this situation *then* take this action . . .) into the realms of rule-based decision making. Rules determining a course of action or diagnosis are built in to the software in an interactive, *question-and-answer form.*

SIGNATURE refers to each "bundle" of printed, paginated text bound into a book. Sir David Frost's autobiography, for example, is a big hardback with 18 signatures, 17 of 32 pages text, and one of 16 pages of illustrations.

"IBM's industrial design team gave us a vision and experience beyond our own, and helped us develop a strategy that has held good to this day – develop people, simplify processes, then automate."

Initial inquiries involved 25 vendors, and a 70-page proposal synopsis was sent out to a shortlist of eight.

Andersen Consulting's Mac-Pac software was fully integrated in its design, and came closest to fitting the HarperCollins "no modifications" policy. Another attraction was the Expert Configurator, an "intelligent" module that works like many expert systems, to define the rules which govern a process. A trip to the US to see Expert Configurator in action (there were no UK users at the time) confirmed the choice.

Mac-Pac follows the business flow from start to finish. It can treat every order and every title as an individual product. Each book is planned and tracked through every process. Every component – printing plate, signature, cover – is tied to its book and traceable through Mac-Pac.

"Setting the rules is an interactive 'conversational' process to create the code. The two years it took to evolve was a combination of analysis, simplification, and representation of what we do. No one individual has the command of detail of the entire process. We did not pick the brains of the existing mainframe system, we did it from scratch," adds David Thomson, manufacturing systems manager.

The process of preparation and training was also an eye-opener. "We had shop-floor personnel training the managing director – people found talents they never knew they had," says Mitchell.

In November 1992, HarperCollins announced 211 redundancies in manufacturing which took effect just six weeks before implementation. The first Mac-Pac product off the presses was a high-profile title, Jeffrey Archer's *Honour Among Thieves* in May 1993. "All this put a *strain on the organisation*. We found that even 1,000 days of training was not nearly enough," says Mitchell.

The Andersen consultants insisted that HarperCollins should develop its own rules and procedures, *which was time consuming* but worthwhile.

Users are enthusiastic. One claims to have learned as much in training as he had in 20 years in the business. According to Irene Thomson, customer services manager for *paperbacks, previous manual* systems were difficult to control. "Now we are more reactive, and customer satisfaction has improved."

Fred Buchanan, the paperback planner, had previously worked with a *small PC*. "We *did not know* if we could fulfil to order or not, now we can say yes and mean it."

Steve Melvin is a lead operator on one of the print machines, which has produced 25,000 copies of *Wild Swans* every week for the last three *months*.

"The lead time for a paperback used to be four or five weeks. Now it is 10 days or less," he says.

Owen Mitchell, HarperCollins business development director *(right)*, and *Steve Melvin*

CONSULTANT'S CRITIQUE

Although a book is a manufactured item with many sub-components, not one of them is re-usable. Most manufacturing control software is written for more traditional operations and a major consideration for HarperCollins was to select a package that fitted its needs. Even having selected the package with the most flexibility, David Thomson, HarperCollins' systems manager, says it has pushed Mac-Pac to its limits.

The most interesting aspect of the new system has been the attention given to people. Owen Mitchell, business development director, spent considerable effort in getting his staff to see the computer system as a means to more efficient operation rather than as an end in itself.

Classical change-management theory talks of a three stage process: "unfreezing" attitudes; the change itself; and "re-freezing" new behaviour patterns. Mitchell ensured that the unfreezing period minimised the feelings of unease that precede change. The change itself was carefully managed and quickly carried out. The re-freezing has been so complete that Agnes O'Brien, inventory planner, claimed that most people now could not even remember how to key in to the old system.

One cost is the use of internal resources. Mitchell estimates that the £2m spent on the system has been matched by £1m of staff time. The returns seem to imply that it has been worthwhile. Inventory has dropped from £4.1m to £3.4m and lead times have halved. On-time delivery for paperbacks has increased from 50 per cent to 97 per cent. A quotation now takes about two days when it used to take two weeks.

Andersen Consulting seems to have been a helpful partner in the process. It has insisted that HarperCollins write its own procedures. This has a twofold effect: first, it makes HarperCollins "own" the result; and second, it reduces dependency on external consultancy.

Kevin Grumball

The author is a consultant at Software Design and Construction, of Milton Keynes

PEOPLE

Storehouse selects Steele and Sorrell

After getting through three finance directors since 1990, Storehouse will be hoping that its latest recruit to the position, Dick Steele, 38, right, currently FD of Lloyds Chemists, may stay the course.

In addition to filling the FD's position which has been vacant since the unexpected departure of Graham Rider last October, Steele's appointment from April will give Storehouse a full board of four executives and four non-executives for the first time for more than a year.

Bringing the management back to full strength has been one of the priorities of chief executive Keith Edelman since he was appointed to the group last summer.

Steele was appointed after an executive search and had no previous links with Storehouse, but the group says it is sure that it now has the right man.

"Clearly he has the qualities we are looking for," says Storehouse. "He has first-class accounting skills and very strong retailing experience."

Steele has a degree in economics and accountancy from Liverpool University and qualified as an accountant with KPMG Peat Marwick. He joined fashion retailer Next in 1984 and held a number of senior financial positions before moving to Midsummer Leisure as group finance director in 1987. He became FD of Lloyds Chemists in 1990.

Martin Sorrell, 48, chief executive of the marketing services group WPP, is also joining the company, as a non-executive director, the first such post he has notched up. Yesterday he said he did not wish to comment on his reasons for making the move into previously uncharted waters.

Allan moves to Kent Tec

Kent Training and Enterprise Council has appointed a new chief executive, Malcolm Allan, who will spearhead the Tec's enlarging role in the economic *development of Kent*.

Allan, aged 44, has been chief executive of Sussex Tec for the past three years. He succeeds John Forsdyke, who relinquishes his post at Easter.

More than 160 applications *were made for the post*. The job is an expanded one, as it is planned that the new chief executive will be at the helm of a new organisation made up of the Tec and Kent County Council's economic development unit.

Agreement in principle has been reached on the merger of the county's unit with the Tec, although detailed negotiations are still proceeding.

The intention is to rationalise and develop services to business in Kent, Britain's front door into the Economic Union, under the Tec's leadership.

The merger could provide a model for other Tecs, all of which are seeking to bring greater coherence to the delivery of economic development within their localities.

■ Rupert Nabarro, 48, joins the board of the Black Country Development Corporation. He is managing director of London-based Investment Property Databank and a director of Applied Property research.

Bantz shifts to NatWest

Bruce Bantz has been appointed head of global asset securitisation at NatWest Capital Markets, a new post set up to reflect a stronger focus on its securitisation business.

Bantz, previously vice president, *treasury funding*, at Citibank's credit card securitisation arm, will be based in London and will report to Garry Southern, managing director of NatWest Capital Markets.

Europe's nascent market in asset-backed and mortgage-backed securities is dwarfed by the US market, and has so far failed to take off.

Southern says he expects no explosive growth but predicts the market will move up a gear or so over the next few years.

NatWest has been involved in several sterling mortgage-backed deals, and has set up a vehicle called Thames Funding, which acts as a conduit for corporate *asset-backed* commercial paper.

While sterling will remain a priority, NatWest plans to expand into other European markets.

■ Graham Randell has been *promoted from deputy to director* of acquisition finance at NatWest Markets, succeeding Malcolm Cameron who has been promoted to regional executive director at NatWest's Thames Valley Region.

Inchcape, the international marketing and services group, is losing one well-connected non-executive director and picking up another. Jurgen Hintz, 51, chief executive of CarnaudMetalbox, the Anglo-French packaging group, is replacing Jean-Paul Parayre, 56, a supervisory board member of Peugeot, who is retiring from the Inchcape board in May in order to devote more time to his increasing business commitments in France.

Inchcape has always prided itself on its international connections; Hintz seems to fit the bill nicely. A US citizen born in Germany, he has worked and lived in the UK, Germany, and France as well as the US where he was an executive vice president of Procter & Gamble.

Jeff Edington, whose appointment in 1992 as British Steel's technology supremo was welcomed by industry observers, has been appointed an executive director at the UK steelmaker.

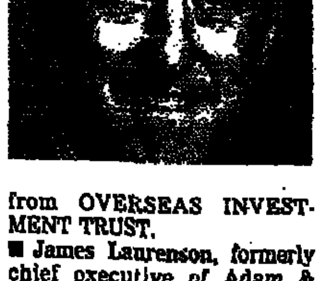
Edington joined British Steel as managing director, technology, after 10 years at Alcan Aluminium in Montreal, and has a mission to redress the balance between use of steel and that of faster-growing aluminium.

David Grieves, an executive director and vice-chairman at British Steel, will retire from the board in July after 37 years in the UK steel industry.

Grieves is chairman of Avesta Sheffield, the Anglo-Swedish stainless steel producer formed in 1992.

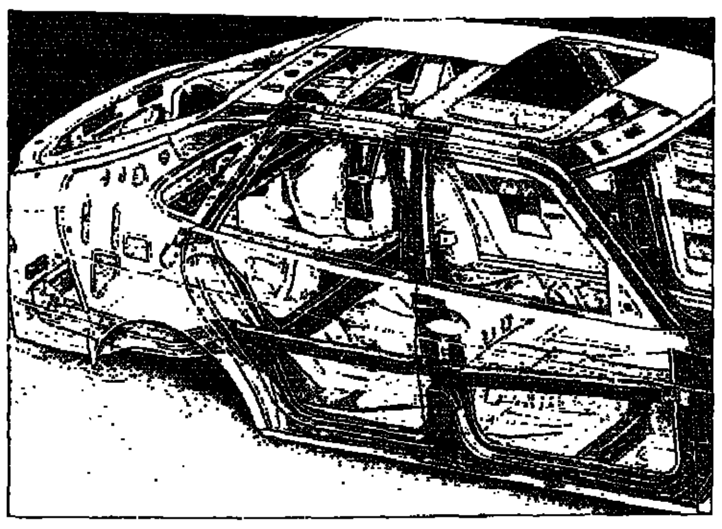
Non-executive directors

■ **Nicholas Barber** resigned from COSTAIN.
■ **Sidney Taylor**, director of TI Group, at EUROTHERM.
■ **Jonathan Stewart** resigned from SELECT INDUSTRIES.
■ **John Leek**, chairman of Lilleshall, at LINREAD.
■ **George Howard**, director of BBA Group, at subsidiary AUTOMOTIVE PRODUCTS on the retirement of John White.
■ **Brian Slade** has resigned from SERCO GROUP.
■ **Mark Smith**, a former vice-chairman of SG Warburg, at RENOLD.
■ **Keith Hodge**, retired corporate director of the south Wales region of Barclays Bank, at HAWTIN.
■ **John Bayliss**, formerly deputy chairman of Abbey National, at RICHMOUNT MANAGEMENT.
■ **Tom Drake**, chairman of Drakes International, at FILOFAX.
■ **Mark Wilson** as chairman at AYRSHIRE METAL PRODUCTS on the resignation of James Boyd.
■ **Peter Shirley**, former partner of Herbert Smith, at FII GROUP.
■ **Peter Oswald**, former deputy chairman of Savills, as deputy chairman at FLETCHER KING.
■ **Andrew Davison**, former md of County NatWest Ventures, as chairman of AYNSLEY GROUP on the retirement of Geoffrey Deith.
■ **Harry Tuley**, below, chairman of Scapa group, as director and chairman of STAVELEY INDUSTRIES.
■ **Lord Catto** has resigned



from OVERSEAS INVESTMENT TRUST.
■ **James Laurenson**, formerly chief executive of Adam & Company, at NSM; Sir Charles Fraser retired as chairman and is succeeded by executive chairman, John Jermine, previously group chief executive.
■ **Mark Keegan** resigned from PREMIER LAND.
■ **Peter Berry**, md of The Crown Agents, at TR PACIFIC INVESTMENT TRUST.
■ **Paola Tosato** at WEST MERCHANT BANK.

هكذا من الآمل



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SAAB SCANIA

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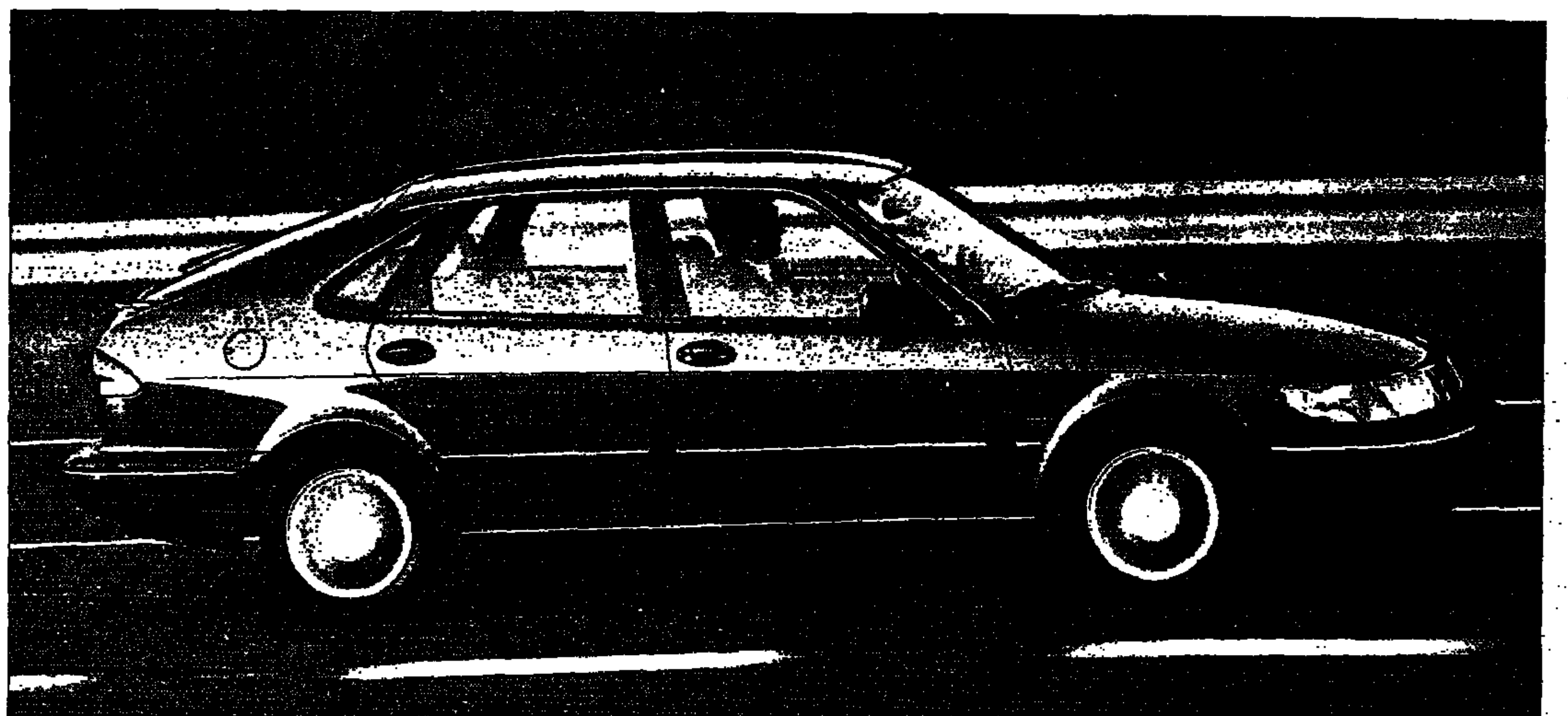

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Cinema/**Nigel Andrews**

Love that dares not speak its name

THE AGE OF INNOCENCE (U)
Martin Scorsese

MRS DOUBTFIRE (12)
Christopher Columbus

DECADENCE (18)
Steven Berkoff

In Martin Scorsese's *The Age Of Innocence* the director's fondness for full-steam-ahead visuals – see *Taxi Driver*, *Raging Bull*, *Goodfellas* – collides with novelist Edith Wharton's icy prose: that 1920s irony looking back on 1870s social etiquette. The result is something like the alarm-bells sounding on the Titanic. The viewer's imagination pushes the melodramatic possibilities forward. But the SS Scorsese is stuck on the ice and – more remarkably – it seems to be *enjoying* its state of suddenly ordained stasis.

While the audience tries to will the characters into Scorsese-ish excess, the casting (mainly British) and the film's ornately deliberate style (James Ivory meets Luchino Visconti) tell us to stop or slow down.

It takes half an hour, by my watch, to adjust the aesthetic metabolism. By then such magic as the movie boasts – a lot, allowing for some tricks that fail – is working. And we realise that the tension between energy and stillness is the essence of both the film and Wharton's tale. Here is Mr Newland Archer (Day-Lewis), affianced to the demure and lovely May Welland (Winona Ryder), but dazzled by the aureate ringlets and wide-lipped Cheshire Cat allure of Ellen Olenska, the Countess with a Past (Michelle Pfeiffer). This woman has come over from Europe, vaguely bent on divorcing the Polish husband we never see, and spins an amorous web all around our hero. Will his family stand for it? Will society impose pariahdom? Or will decency and dynastic imperative turn Day-Lewis back to dull virtue?

Edith Wharton's world was one where snobbery and puritanism dined at the same table. While the writer's gelidly ironic prose is served to us by Joanne Woodward's novel-quoting voice-over (each cadence shaped to perfection), her equally icy supporting characters, played by a rich cast of Brits including Alec McCowen, Richard E. Grant and Michael Gough, are seated round the meal-board or hearth, recounting scandal and tittle-tattle.

Scorsese collaborates with co-scenarist Jay Cocks in bleeding the dialogue of spontaneous drama; then he injects that drama straight back – but subtly – into the images. No savagery in people's words or gestures. But look at the painted screen just behind Pfeiffer depicting a pelican biting her own breast, or the picture at the top of a staircase of an Indian scalping. No incendiary bursts of feeling in the scenes of revelation or confrontation. But look at the fire-bomb impact Scorsese builds into close-ups of cigars being lit! This is emotional "displacement" transmuted into cinematic symbolism.

And transposed feeling is apt. For the romance at the story's heart is one that never happens. Newland's trysts with Ellen stumble on through the weeks and months, the screen alternately cracking with the slow-thawing emotion of their encounters and then re-freezing under the influence of social protocol or prohibition.

It is in the "love" scenes, though, such as they are, that the film goes askew. Day-Lewis's wry, delicately suffocated *hauteur* is perfect for Newland – this man raises repression to an art form – but Pfeiffer's Ellen is a disappointment. She comes across as a rent-a-minx who has been to elocution lessons. The breathy precision of her consonants reminds us of Monroe in pretentious mode; the actressy coquetry of her fan play and head-turns is too studied. The artifice numbs the movie's heart. There is no chemistry – let alone any credible urge to biology – in this ill-mated pair.

Scorsese has bled Wharton's dialogue of spontaneous drama – but then injects it straight back into the images

So the story about a love that dares not speak its name comes most alive when the lovers are off the screen: when Scorsese's camera roams or soars across banquet-tables or opera houses, seeking the poignancy of personal intimacy in the majestic ceremonies of its absence; or when Day-Lewis's haunted, handsomely hollow-cheeked face, alone on screen, re-lives over and over the dream that he never had.

★

If Scorsese's film is a tragedy of what-you-never-had-you-always-miss, *Mrs Doubtfire* is a comedy of once-you've-had-it-you'd-better-hold-on-to-it. At last, in this film, the solution to the much-discussed single mothers problem. Dress estranged Father (Robin Williams) in female garb; pad out his chest so that it resembles two footballs trapped under a duvet; give him a high-pitched Scottish burr – somewhere between Jean Brodie and Lord Reith – and then smuggle him into his (ex)wife's house to nanny the children.

There he will pass undiscovered until the fateful day when Sonny wanders into the bathroom and – but enough! Surprises are not so plentiful in this comedy, at least until it reaches its magnificent restaurant climax (quick-changing compounding cross-dressing), that we should squander them here. Much of the early stuff consists of Robin Williams doing his super-schmaltz act: stumbling wet-eyed in the wake of Sally Field (departing wife) and looking like Mr Pagliaccio without his script or make-up.

But once we are into *vesti la giubba* – on with the nanny drag – the magic and merriment steal in. Christopher (*Home Alone*) Columbus directed; Randi Mayem Singer and Leslie Dixon co-screenwrote, from a novel by Anne Fine. But when funny Williams takes over from fey Williams he needs neither director nor writer(s). He is Hurricane Shtick: omnipotent whether turning his employer's cooking quarters into a literal Hell's kitchen, or fending off a lascivious bus driver, or improvising polite insults to Miss Field's new boyfriend (Pierce Brosnan). "Your accent's a little muddled" ventures the bronzed smoothie with the décolleté shirt. "Really?" replies Miss Doubtfire, "so's your tan."

Hurricane Shtick has another great asset. Once he starts blowing, even the threat of renewed sentimentality is turned to matchwood. In one scene our hero, reduced between nanny hours to a fetch-and-carry job in a TV studio, wanders onto an empty soundstage and starts to improvise with a pair of dinosaur puppets. At this point I screamed inwardly. I thought the ghost of Jerry Lewis had arrived. But whimsy turns to wit, and then becomes for the cue for the film's cracking comic climax in the eatery.

This sequence will make you laugh till you cry. Either that or you have seen too many tired pantomimic drag acts – Hinges and Brackets and Danny La Rues – and had your taste corrupted. For the wonderful thing about Williams's Doubtfire is that he (she? it?) could be real. Even when the stockings are inadvertently slipping to the ankles, or the false teeth are falling into the aperitif, or the wig is turning round to face Mecca, the lady's sweet, purring, buxom femininity continues. In a bad comedy Mrs Doubtfire would be the nanny of our nightmares. Here she is the nanny of our dreams.

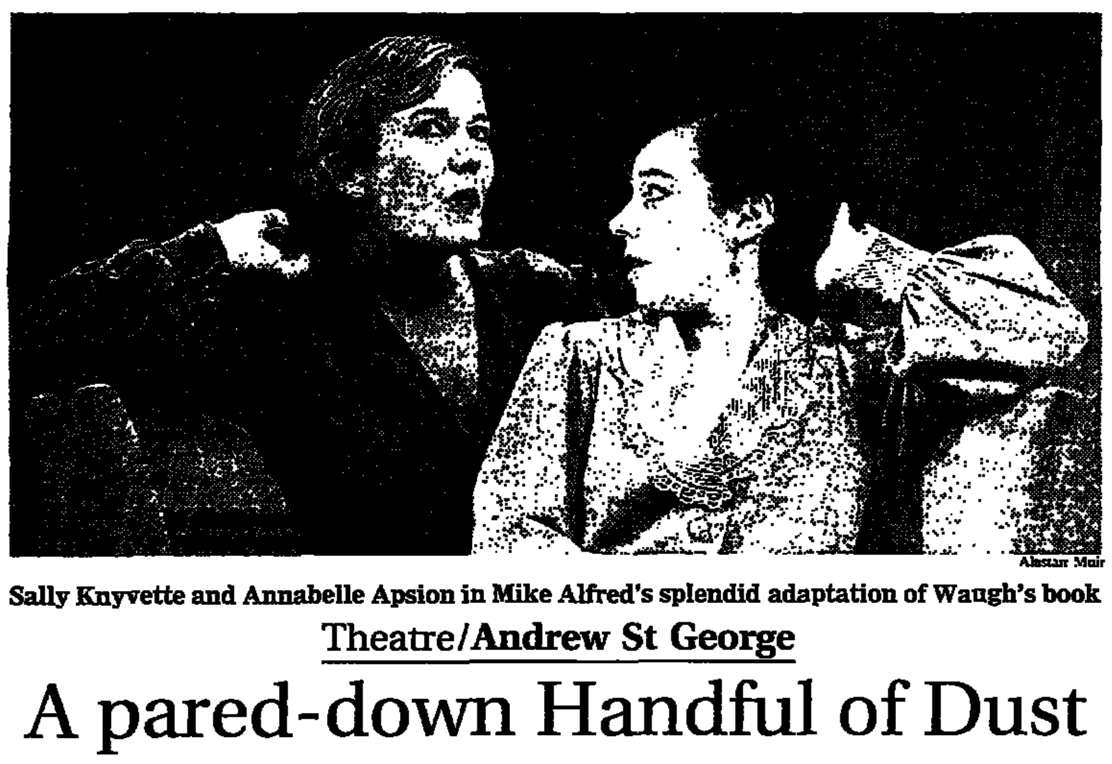
★

Mrs Doubtfire would have her work cut out cleaning up after Steven Berkoff's *Decadence*. In one scene the actor-director throws up all over the camera lens: that is, over us the audience. We/the camera are situated inside a lavatory bowl (sic), though for the few seconds before Mr Berkoff lets fly this seems the nicest, safest, comfiest place in the whole film.

For the rest of the excruciating 108 minutes we are stuck in no-man's-land. God save us from filmed plays in which the writer-star-director has no idea how to come at his material in a new medium. Plonked down like disregarded tots in a series of crowded or uncrowded rooms – luxury apartment, dingy pad, swank restaurant – we watch Berkoff and Joan Collins spout the blank verse as they quick-change between their two equally resistible pairs of characters.

Now they are the high-rolling toffs who play kinky sex games and gorge on champagne and caviare. Now they are the low-lifers who vary gormless leg-over sessions (message: the lower classes do not know how to enjoy sex) with chat about murder and petty crime. It may all have been a hoot on stage but here on screen it plays like a Ben Jonson comedy modernised by a madman with logorrhea.

Ill-mated pair: Michelle Pfeiffer and Daniel Day-Lewis in 'The Age of Innocence'



Alastair Muir

Sally Knyvette and Annabelle Apsion in Mike Alfred's splendid adaptation of Waugh's book

Theatre/**Andrew St George**

A pared-down Handful of Dust

It started in Brazil. Evelyn Waugh (1903-1966), travelling to South America in 1932 after a disastrous marriage, met a religious mystic bent on reading Dickens. The resulting short story and the novel *A Handful of Dust* (1934) have been a warning to South American explorers and Dickensians ever since. Now the Cambridge Theatre Company has staged Waugh's book at the Palace Theatre, Watford: it makes super theatre.

A Handful of Dust, straight from T.S. Eliot, tells of the creaky marriage between Tony and Brenda Last, who in the 1930s are much less middle class than they now sound. Brenda falls in love with a younger man, John Beaver, at the same moment that the Last's eldest son dies in a hunting accident. Grief and alimony drive Tony to search for Indian gold in South America; but his expedition, lead by Dr Messenger, comes to a sticky end and Tony finds himself a prisoner reading Dickens to the illiterate local potentate.

The director Mike Alfreds opts for the anti-Brideshead approach. The ten actors do without scenery and props for this pared-down touring production. The scenes are short, like movie cuts, and each one finishes with a freeze frame. The lighting is bright white and the backdrop and costumes pearl grey.

Alfreds' adaptation is excellent. He parcels out the narrative so that Waugh's voice in the book shares itself among the actors, who introduce themselves or the scene and then speak the lines. The ensemble scenes – restaurants, parties and hunts – work well, and the actors retire to chairs facing the stage. Alfreds' other company, Shared Experience, used the same technique to tackle *Anna Karenina*, so it works on longer books as well.

Waugh's best lines survive, and make dramatic sense; as her affair gathers pace, Brenda comments to the audience: "Their interest in each other had so far outdistanced their knowledge that there was a great deal to say." The cameos also live on: the shocking American Blonde, the doddering clergyman Mr Tendril and in the background the humble and uncomplaining victims of primogeniture.

The principals keep the action bowling along, although the long first half and short second is a problem inherited straight from the novel. Lady Brenda (Annabelle Apsion) is less worldly than in Waugh and Lord Tony (Tim Dutton) more sympathetic; both actors are sharp and subtle. Elsewhere there are fine performances from Jason Watkins (the Lasts' boy and Dr Messenger), Laurence Kennedy (family friend and general club bore) and Sophie Heydel (Brenda's socialite sister, Marjorie).

In all, the characters are less extreme than in Waugh's book, but more easily caricatured. Perhaps he felt turning 30 altered his attitude: "for the first time I am trying to deal with normal people instead of eccentrics; comic English character parts are too easy when one gets to be thirty." Noel Coward begs to differ.

The Palace Theatre, Watford (0923 225671) until February 12.

Old attitudes challenged by young playwrights

Malcolm Rutherford is impressed with 'The Body Politic' at the Cockpit Theatre

A little-noticed change has come over the British theatre: new plays are no longer noticeably left-wing. While one hesitates to say that there has been a shift to the right, young playwrights are becoming much more detached. They are also looking for new subjects.

Mike Cullen's *The Cut*, a play about British miners which was reviewed in Monday's FT, is a case in point. The author did not take sides: he simply wrote a very good piece about how the coal industry looks from the inside and underground.

There are half a dozen examples at the Cockpit where the Soho Theatre Company is presenting 15-20 minute extracts from potential full-length plays by young writers under the umbrella title *The Body Politic*.

The body is more relevant than the politics. Medical science, and the ethical questions raised by its advances, are one of the big subjects of the future. Why not explore some of the implications on stage? This is exactly what the Soho Company attempts. Some of *The Body Politic* is funny; some of it is sad.

Quite the most brilliant piece in the compendium is about DNA and cloning. Indeed, *On the Strand* by Paul Goetzee is one of the wittiest revue sketches I have seen in a London theatre since the young Dr Jonathan Miller was performing in *Beyond the Fringe*. Here is a genetic engineer so in need of a friend like himself that he places an ad. in the lonely hearts column of *Scientific American*. He finds a clone: they have their magic moments in song and dance, squash, scrabble and chess, but look-alikes and are-alikes do not always get on for ever.

It would take a genius to extend *On the Strand* into a viable full-length play; as a sketch it is the tops. Darren Tunstall as the premier genetic engineer has a marvellous way of communicating directly with the audience.

The saddest, though no less estimable, exhibit is *Grin and Bear It* by Sara Clifford. The national health service has plainly done its best in adverse economic circumstances. An old couple have one pair of spectacles and one set of dentures between them. They swap every hour so that one of them can read the *Daily Express* while the other eats.

"Which do you prefer, the teeth or the glasses?" Neither is quite sure, but it is not a bitter dispute. They even dance together quite happily. Still, there is menace outside: a knocking on the door – the gasman perhaps? The knocking subsides. The triumph of the piece, performed by Hilary Sesta and John Crocker, is that it is played absolutely straight without overt political or social harassment.

The other outstanding contribution is *Skin* by Neil Biswas, who left university only a year or so ago and must be a writer to watch. *Skin* is about a Bengali family in the English Midlands considering a return to Calcutta on retirement: the daughter (Nina Wadia) has become Europeanised. It is both moving and comic and the only part part of the programme that can be easily envisaged as a full-length play. I look forward to seeing it.

Meanwhile, the formula of a collection of short pieces is very effective. Most of them stand in their own right at their present length. The influence of television is strong: they would go down equally well on the small screen. The advantage of the theatre is that they can be done together. *The Body Politic* should be seen as a new kind of stage review, and copied. Alex Perrin directs in a place that has become one of the liveliest theatres in London.

Cockpit Theatre, London NW8. (071) 402 5081

INTERNATIONAL ARTS GUIDE

■ ATHENS

Megaron Tonight: poetry and music from Russia. Tomorrow: Kostas Kotsiolis guitar recital. Sat: José van Dam. Sun, Mon: La Camerata plays orchestral works by Holst, Boccherini and Schoenberg. Next Tues, Wed: Hagen Quartet. Feb 5, 6: Philharmonia Orchestra (01-728 2333/01-722 5511)

■ BARCELONA

Gran Teatre del Liceu Sat, next Tues and Fri: Uwe Mund conducts Götz Friedrich's Berlin production of Mathis der Maler, with cast including Albert Dohmen, Jan Blinkhof, Karan Armstrong and Cynthia Clarey. Tomorrow: Kathleen Kuhlmann song recital. Next Thurs: Olga Borodina (tel 412 3532 fax 412 1198)

● Information for cultural events available through Caixa Catalunya from 08.00 to 14.00 (310 1212)

■ BOLOGNA

Teatro Communale Mon: Hagen Quartet. Next Wed (Palazzo dei Congressi): Les Ballets de Monte Carlo. Feb 5: first night of Jonathan Miller's production of Maria Stuarda, with Kallen Esperian in title role (Biglietteria, Ente Autonomo Teatro Communale di Bologna, Largo Respighi 1, 40126 Bologna. No telephone bookings accepted. For information, call 051-529999)

■ FLORENCE

Teatro Verdi Tonight, Sun afternoon: Paisiello's Il barbiere di Siviglia, with Alessandro Corbelli, Christine Barbaux and Luca Canonici. Feb 3: first of seven performances of Rossini's Il barbiere di Siviglia (055-277 9236)

■ GENOA

Teatro Carlo Felice Tonight, tomorrow, Sun: final performances of Nabucco, with Ghena Dimitrova and Leo Nucci. The next production is L'elisir d'amore, opening Feb 11 (010-589329)

■ LONDON

THEATRE

● The Skriker: Caryl Churchill's new play opens tonight in the Cottesloe, directed by Les Waters, music by Judith Weir, movement by Ian Spink (National 071-928 2252)

● September Tide: first West End showing for 45 years of Daphne du Maurier's drama of inappropriate passion, in a King's Head production with Susannah York as the decent woman in love with her son-in-law (Comedy 071-867 1045)

● An Absolute Turkey: Felicity Kendall plays a harassed wide and Griff Rhys Jones a frantic bachelor in Peter Hall's enjoyable production of Feydeau's Le Dindon (Globe 071-494 5065)

● Medea: Jonathan Kent directs the magnificent Diana Rigg in Euripides' tragedy of a woman's revenge (Wyndham's 071-867 1116)

● An Inspector Calls: Stephen Daldry's award-winning production of J.B. Priestley's social thriller (Aldwych 071-836 6404)

● Piaf: Elaine Paige in powerful voice in Pam Gems' musical play about the Parisian sparrow (Piccadilly 071-867 1118)

OPERA/DANCE

Covent Garden The Royal Ballet has Kenneth MacMillan's Mayerling tomorrow, next Tues, Thurs and Sat. The Royal Opera has revivals of Carmen with Denyce Graves (tonight, Sat and next Wed), and Elektra with Eva Marton, Marjana Lipovsek and Nadine Secunde (till Feb 17). Opera North presents its acclaimed production of Britten's Gloriana on Feb 7 and 10, with Josephine Barstow as Elizabeth I. A new production of Massenet's Chérubin opens on Feb 14 (071-240 1066)

Coliseum Jonathan Miller's new ENO production of Der Rosenkavalier opens next Wed, conducted by Yakov Kreizberg and designed by Stefanos Lazaridis, with cast headed by Anne Evans, Sally Burgess and John Tomlinson. Repertory also includes Die Fledermaus and Nicholas Hytner's production of Xerxes (071-836 3161)

CONCERTS

South Bank Centre Tonight: Franz Welser-Möst conducts LPO in a new work by Jonathan Lloyd, plus Saint-Saens and Stravinsky, with violin soloist Frank Peter Zimmermann. Tomorrow: Charles Mackerras conducts RPO in Janacek, Sullivan, Tchaikovsky and Brahms, with cello soloist Raphael Wallfisch. Sat: John Eliot Gardiner conducts North German Radio Orchestra in Strauss, Weill and Rakhmaninov, with Ute Lemper. Mon: Charles Farncombe conducts Handel's Messiah. Tues: Stefan Sanderling conducts LPO in Rakhmaninov and Shostakovich, with piano soloist John Lill. Feb 6, 7: Roger Norrington conducts HMS Pinafore. Feb 13, 16, 19: James Levine conducts the Philharmonia. Feb 14, 15, 20: Tennstedt conducts Brahms (071-928 8800)

Barbican Tonight: André Previn conducts LSO in Haydn and Brahms, with cello soloist Wendy Warner. Tomorrow: Mark Elder conducts CBSO in Elgar, Berlioz and Sibelius, with mezzo Ann Murray. Sun: Leopold Hager conducts LSO. Jan 31-Feb 8: Schumann and Friends, concert series devised by Raymond Leppard with English Chamber Orchestra, featuring Nikolai Demidenko, Thea King and Richard Stoltzman (071-638 8891)

Wigmore Hall Feb 4: Margaret Price. Feb 9: Cornelia Kallisch. Feb 15: Barbara Bonney. Feb 22: Jerry Hadley. March 2: Thomas Hampson (071-935 2141)

■ MADRID

Auditorio Nacional de Musica Tonight: Marisa Robles harp recital. Tomorrow, Sat, Sun: Aldo Ceccato conducts Spanish National Orchestra in works by Stravinsky and Tchaikovsky, with violin soloist Dmitri Sitkovetsky (01-337 0100)

Teatro Lirico La Zarzuela Tomorrow, Sun: Antoni Ros Marba conducts Pilar Miro's production of Der Freischütz, with Poul Elming, Ekkehard Wlaschiha and Eva Johansson (01-429 8225)

■ MILAN

Teatro alla Scala Tonight, Sat, next Tues and Sat: Nureyev production of Sleeping Beauty. Tomorrow: final performance of The Fiery Angel. Mon: Musica Antiqua Köln. Feb 8, 10, 12: Solti conducts Wagner (02-7200 3744)

■ NAPLES

Teatro San Carlo There is a final performance on Sat of La traviata with Giusy Devinu and Vincenzo La Scola. Zoltan Pesko conducts orchestral and choral works by Rakhmaninov, Musorgsky and Borodin next Tues, Wed, Fri, Sat and Sun. The next opera production is La Sonnambula, opening Feb 26 (081-797 2331)

Teatro delle Palme Tomorrow: Hagen Quartet. Next Thurs: Alexander Lonquich piano recital (081-406011)

■ PRAGUE

● Gerd Albrecht conducts Czech Philharmonic Orchestra and Prague Chamber Chorus tomorrow and Sat at Dvorak Hall in Grieg's complete music for Peer Gynt (02-286 0111)

● Martin Turnovsky conducts Prague Symphony Orchestra next Tues and Wed at Smetana Hall in works by Haydn, Bartok and Mendelssohn, with piano soloist Cristina Ortiz (02-232 2501)

● Repertory at the National Theatre includes Rusalka, The Devil and Kate, The Bartered Bride and La boheme (02-205364). Staged performances of Mozart operas are given at the Estates Theatre (02-228658)

● Prague State Opera has Rigoletto tomorrow, Entführung on Sat and La traviata on Sun afternoon. The annual opera ball takes place on Feb 5, and there are no further performances till the first night of a new production of Carmen on Feb 16 (02-265353)

■ ROME

Teatro Olimpico Tonight: Hagen Quartet plays string quartets by Beethoven. Next Thurs: Fone Quartet. Feb 10: Andras Schiff (06-320 1752)

Gonfalone Tonight: Patrick and Thomas Demenga play works for two cellos (06-687 5952)

Teatro Valle Sun, Mon, Tues: Spiros Argiris conducts Orchestra dell'Accademia di Santa Cecilia in works by Webern, Schoenberg and Richard Strauss (06-678 0742/ 06-6880 3794)

Teatro Il Sistina Sun morning: Pekinel Sisters. Feb 6: Narcisco Yepes (06-5734 4664)

■ VENICE

Teatro La Fenice Feb 3, 6, 9, 12, 17: John Schlesinger's Covent Garden production of Les Contes d'Hoffmann (041-521 0161)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV

(Central European Time)

MONDAY TO FRIDAY
Super Channel: European Business Today 2230; repeated 0630, 0715
MONDAY
Super Channel: FT Reports 1230.
TUESDAY
Super Channel: West of Moscow 1230
Euronews: FT Reports 0745, 1315, 1545, 1845, 2345
WEDNESDAY
Super Channel: FT Reports 1230
THURSDAY
Super Channel: West of Moscow 1230; FT Reports 2130
Euronews 0745, 1315, 1545, 1845
FRIDAY
Super Channel: FT Reports 1230
Sky News: FT Reports 2030
SATURDAY
Sky News: 0330; 1330
SUNDAY
Super Channel: FT Reports 2230
Sky News: FT Reports 1730; 0430

Pale males and predatory women

BOOK REVIEW

DISCLOSURE
By Michael Crichton
Century. £14.99

Thomas Sanders is a great guy: smart, well-liked and going places in his Seattle-based high-tech company. Meredith Johnson is a bitch: manipulative, ruthless and sexy. One morning he turns up to work late – having given the kids breakfast while his lawyer wife throws a tantrum – to find Meredith has been appointed his boss.

Once they were lovers but, since they split up 10 years ago, they have barely seen each other. On her first day in the job she plies him with wine, and leaps on top of him. He fights her off, escaping with a scratched chest and a torn shirt. The next morning both claim they were sexually harassed by the other.

Were *Disclosure* an ordinary airport novel the verdict would be simple: the characters are cardboard cut-outs and the plot ludicrous. The book is none the worse for that. The story races along, taking in sex, power, the clashing cultures of two merging companies, virtual reality systems, CD-Rom disc drives and telephones the size of a credit card.

In other circumstances you would read it, enjoy it, forget it. Yet Michael Crichton – who caused something of a stir with his novel *Jurassic Park* – is intent on getting more publicity out of this one. If the velociraptor was frightening, meet the woman in the power suit.

Crichton wants *Disclosure* to be taken very seriously indeed. He claims the book was a quasi-scientific undertaking, based on a true story and substantiated by numerous interviews with experts in the field of sexual harassment. He has suggested that part of the reason for writing it was to explain to his four-year-old daughter what a bad old word it is out there.

It should not take his four-year-old long to work out that daddy has picked a hot topic. Sexual harassment and male backlash are the great corporate preoccupations of the moment: combine them in a story in which the woman harasses the man, and bingo, the film rights sell for $3.5m and feminists are furious.

Unless she has a good sense of humour, his daughter may not like the way women are presented. Talented "pale males" are passed over for jobs in favour of less capable women. The only trustworthy females are dull and ugly. Wise men never sit next to a female colleague on an aircraft for fear she will accuse him of being unable to keep his hands to himself.

Yet for all that, *Disclosure* raises some interesting points. By reversing the sexes of the villain and the victim, the author makes us question our standard reactions to sexual harassment. The sight of a woman grabbing and lunging simply underlines how obnoxious the men are who really behave in this way. This is not Crichton's intention.

Instead he is trying to show that sexual harassment is not a women's issue. Repeatedly he asserts that it has nothing to do with sex and everything to do with power. In the words of Louise Fernandez, Thomas's shrewd lawyer: "Sexual harassment is about power, and so is the company's resistance to dealing with it. Power protects power. And once a woman gets up in the power structure, she'll be protected by the structure, the same as a man."

Nobody denies that women harass men. In the US some 10 per cent of the 22,000 cases filed each year are from men. In Europe there is also a small but growing number of men who claim to have been harassed by women. Crichton is also right to point out that companies tend to stand behind their senior executives. But his argument that harassment is only a function of power, that senior women are just as likely to be perpetrators as their male counterparts, is tenuous at best.

Still more dubious is the notion that women use the same tactics in the office as their male counterparts. The evidence from the UK, at least, suggests they are more likely to wear their victims down, with constant unwanted remarks and invitations, than pin them to the sofa. It is in this context that the implausibility of Meredith-the-she-devil matters: if sexual abuse of power comes as naturally to women as to men, we need a more recognisable stereotype. But a Meredith who persecuted Thomas with words might not be bestseller material.

Regardless of the sex of the victim, *Disclosure* makes both too much and too little of the effects of sexual harassment. Too much, because the outcome of the corporate merger is made to depend on whether he pounced on her or vice versa. Too little, because the embarrassment, guilt, lost reputation and damage to family life that come with sexual harassment cases are skated over. When New Man Thomas comes through victorious, he appears to have been emotionally unscathed by the incident.

Crichton's view is that sexual harassment claims are reaching their peak level. He argues that society will have to form rules to cope with the new political correctness: allegations are flying and nobody knows what behaviour is appropriate any more. He shows how damaging the mere accusation of sexual harassment can be, and rails against the "contemporary climate where men were assumed to be guilty of anything they were accused of".

The press release that accompanies the book finishes with an unusual message in heavy type: "*Disclosure* illuminates the situation today and demands that it be addressed before it gets out of hand." Actually, the book makes no such demand, neither does it give much account of how the matter could be remedied. Fernandez, the lawyer, throws in her solution at the end of the book, but it is left dangling: "When women have 50 per cent of the executive positions. That's when it will end."

Some readers, enraged at the depiction of "female chauvinist sows", and irritated by the advertisements warning that women are even more deadly than dinosaurs, might doubt whether the author agrees total equality is the answer.

Lucy Kellaway

ECONOMIC VIEWPOINT

Jobs – keep out the politically correct

By Samuel Brittan

The Organisation for Economic Co-operation and Development's special draft report on unemployment, outlined in the Financial Times on January 24, is an example of excellent detailed analysis spoilt by the attempt to impose a politically correct conclusion and summary.

Does it really help to increase the influence of the OECD to conclude "the requisite policy agenda will be wide-ranging, and politically difficult, requiring much determination and a commitment to social equity"? The call for "undogmatic and concrete solutions" is no doubt aimed at those whom French speakers call "ultra-liberals", but is anyone at all impressed? Is "an insufficient ability to adapt to change" adequate as a summary of what has gone wrong?

These examples of OECD-speak from Paris – like similar examples of Eurospeak from Brussels – serve only to smother some of the fascinating information that the organisation's analysts have unearthed. For instance I did not know until I saw this document of the survey evidence that, for every part-time worker wishing to work full-time, there are three full-time workers who would prefer to work part-time if they were able to.

I have, however, the fortunate advantage over the OECD that I am not trying to increase my non-existent influence at summit conferences, let alone to please 24 member governments. So let me try my own summary of the main aspects of the European unemployment problem.

● First, all markets require some reserves as shock absorbers. In product markets these consist of stocks. In the labour market, as they at present function, these are people out of work.

● Second, the size of this reserve is swollen by two phenomena: inadequate overall demand; and pay and other labour costs which price workers out of jobs. The latter has been the more fundamental. But both forms of failure interact with and reinforce each other.

● Third, they are both aggravated by a shortage of capacity – it is this last which provides the effective ceiling to UK employment at present. Such capacity bottlenecks do not occur by accident in advanced economies. They are nearly always a response to excess labour costs in the past. As a result, investment has had too much of a capital deepening character, designed to cut costs and save manpower, and not enough of a capital widening kind, designed to increase capacity. (All of this is explained much more clearly in *The World Economy in Perspective*, by Herbert Giersch, published by Edward Elgar in 1991, than it is by the OECD.) In addition, the legacy of past inflationary decades makes financial markets more suspicious of official attempts to sustain demand.

It follows from the first proposition that work-sharing gimmicks, such as early retirement, compulsory cuts in hours and so on, have at best a neutral impact on jobs. The same amount of unemployment will re-emerge around a smaller amount of output and employment. This is a self-inflicted wound that European countries with ageing populations should hesitate to impose on themselves. In practice, the effects are likely to be perverse, because labour costs can increase if pay is not cut in proportion to the reduction in hours, if shortages of highly skilled workers emerge or if the amount of effective industrial capacity is reduced.

Why should these phenomena have become so much worse in recent decades? There has probably been a fall in the market-clearing price of many kinds of labour and certainly a fall in the relative demand for the unskilled, the less adaptable and the unlucky. How far these trends are due to technical change inside western economies and how far to competition from newly industrialised countries is unsettled: but the implications are quite similar.

In return for moves to market-clearing pay, the casualties should be compensated

The pressures are starkly illustrated by the accompanying chart. Low-paid workers have been under pressure everywhere. (The bar representing Germany should be treated with caution because only five pre-unification years are covered.) But whereas in the US these pressures have taken the form of falling real pay, in Europe they have expressed themselves in high unemployment.

If, however, Europe is to move towards American-type market-clearing pay, and towards unemployment which is not only lower but more short-term in composition, it is important that the casualties of lower pay should have their incomes topped up by the rest of us who benefit from a more efficiently working economy. Social security systems have to be designed carefully to minimise work disincentives, but they also have to be adequate.

Some evidence that they have *not* been adequate is provided by the 1994 issue of the official UK *Social Trends* published today. The special article in *Trends* on the least well-off 20 per cent of the population avoids the issue by taking a snapshot of affairs in 1990-91. But buried in the chapter on income and wealth there is an important table which gives the game away – indeed the facts have already emerged in parliamentary answers after last summer's recess.

The table shows clearly that, looking at net income after housing costs – which is the normal method in such comparisons – the real income of the bottom fifth fell between 1979, when Lady Thatcher came to office, and 1990-91 not merely in relation to the rest of the population but in absolute terms. The typical drop was 3 per cent, compared with a rise of 28 per cent (after tax and benefit) for the middle fifth and a rise of 50 per cent for the top fifth. The estimates may, as ministers have claimed, have been distorted by the under-reporting of the incomes of the increasing number of self-employed people and other statistical problems. But these complications do not explain away the whole change.

The root explanation is that the Conservative policy of tying benefits purely to prices and not at all to incomes is bound to be vulnerable. For any failure to claim benefit, or any change in specific circumstances not covered by the system, will be sure to tip some families into being absolute net losers.

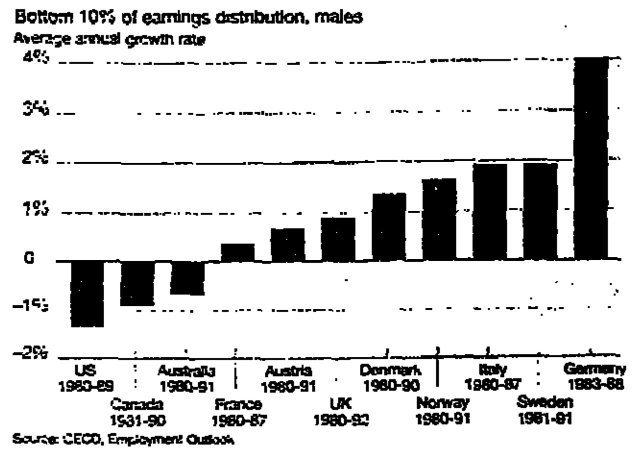
However, the *Trends* analysis is a warning against spurious remedies for poverty. A table reproduced on page 6 of today's FT shows that 56 per cent of heads of household in the bottom fifth of the income distribution are retired or without a job. Only 4 per cent are unskilled workers and 9 per cent semi-skilled ones who might benefit – if they remain in work – from Labour's proposed minimum wage. Another chart shows that 69 per cent of the incomes of the bottom fifth consist of benefit and only 20 per cent of earnings from employment.

Analysed in another way, more than 70 per cent of the bottom fifth of households with children consist of one-parent families or couples with children where neither parent has full-time earnings. These estimates do not suggest that the British social security system is overflowing with generosity to such people.

But simply to call for more generous benefit all round is unconvincing when social security already totals £80bn a year and is by far the largest component in the UK budget. Greater generosity needs to be combined with greater selectivity. The left wing emphasises the first, the right wing emphasises the second. The need is not to split the difference, but for larger amounts of both. There is also a need for adjustments in the conditions attaching to benefit to make it easier for people of low earnings capacity to participate in labour markets without losing entitlement altogether.

Growth in real hourly wages of low-paid workers

Bottom 10% of earnings distribution, males



Source: OECD, Employment Outlook

UK real income

Net real income after housing costs — Index (1979 bottom fifth = 100)

	Quintile groups of individuals*					
	Bottom fifth	Next fifth	Middle fifth	Next fifth	Top fifth	Average
1979	100	138	177	226	312	197
1981	96	135	174	225	323	196
1987	99	143	200	267	406	236
1988-89	100	153	217	289	438	255
1990-91	97	155	222	304	467	267

Source: Social Trends. *Net equivalent household income

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Shake-up is best chance for Japan

From Professor Ronald Dore.

Sir, Your flabby editorial advice to Prime Minister Hosokawa ("Tokyo: time to compromise", January 24) – that he should patch up a compromise with the Liberal Democrats over electoral reform – ill becomes you. It would lead only to another decade of hugger-mugger corruption.

The point about the reform bill was not that single-member constituencies are somehow better or more democratic. It is just that – as intelligent Italians perceived – the best way of shaking a nation out of corrupt practices is to make a lot of the basic ones irrelevant by a new system of elections. And his defeat in the Upper House gives Hosokawa the chance of a lifetime to do that shake-up in an even more thorough-going way.

Surely better advice would be that he should take a leaf out of the book of Mario Segni and his referendum alliance at the last Italian general election – but in a more thorough-going fashion. Hosokawa's personal popularity is high. If a referendum were possible the reform bill would win a strong popular majority.

So why does he not take his courage in both hands, dissolve the Lower House, and put himself at the head of a cross-party ad hoc reform alliance with the passage of the reform bill as its sole objective? He should clearly declare his refusal to make advance deals either on cabinet seats or any other aspect of policy; and promise further elections as soon as the electoral system is changed. It is a package which might just come off. Even trying it would "break the mould".

It would not be so bad, either, for the economy that you are primarily worried about. The excitement and optimism engendered could well restore business confidence. There might even be less paralysis of government; the bureaucracy could get on with business as usual, with fewer irrational interruptions.

Ronald Dore,
Centre for Economic Performance,
London School of Economics,
Houghton Street,
London WC2A 2AE

Inflation factor in tax argument

From Mr Nico Colchester.

Sir, One crucial point has gone unmentioned as government and opposition argue about which of them taxes Britain more heavily. It is that inflation is a hidden tax, which governments are hard-pressed to do without.

Today's Conservative government is trying to sustain a rate of inflation at least 10 per cent lower than that managed by the Labour government of the late 1970s. That amount of inflation would eat away the state's net current debt of roughly £250bn by £25bn a year, as part of the insidious process by which inflation taxes the saver and hands the proceeds to the debtor.

There is not a huge amount to choose between the indebtedness of the state today and in the 1970s, but there is a huge difference in its real carrying cost for the government. Set against a total tax take of some £220bn a year, that handicap of £25bn a year is a big one, particularly now that income from the sale of state assets has dwindled.

One wonderful thing about low inflation is that it forces governments to be more honest about what they offer and how they finance it, for any given degree of involvement in the economy. But it may also force them to put up with profligate governments of the past claiming that they somehow offered people more while taxing them less.

They didn't; they just did it more stealthily.

Nico Colchester,
editorial director,
The Economist Intelligence Unit,
15 Regent Street,
London W1

Performance falls as executive pay rises

From Mr J Dennis Henry.

Sir, Your story, "Executive pay rises three times faster than inflation" (January 24), makes many important points but it fails to identify the most significant feature. Based on a sample from the latest accounts – to the year ending October 31 1993 – of 653 plc companies in the FT-SE "non-financials", the remuneration of the highest-paid directors rose by 10.48 per cent on a year-on-year basis.

Breaking this down into the size ranges you used shows that the highest-paid directors in the 169 companies with sales exceeding £600m received increased remuneration of 12.38 per cent. Those directors in the 250 companies with sales between £100m and £600m received 9.35 per cent and the 234 with sales less than £100m had increases of 7.76 per cent.

Total board remuneration rose by a more modest 3.48 per cent, according to the published accounts, while the number of directors rose by 3.67 per cent, suggesting others did not do quite so well.

A study such as the one the FT reported depends on the co-operation of participating companies. This raises the possibility of a study having to omit some companies which did not wish to take part and so avoiding the disclosure of their increases. The above figures are based on a total sample of the FT-SE "non-financials", plus a few more, and therefore provides a robust appraisal.

What is even more concerning is that while these average increases were being paid to the highest paid directors, the overall corporate performance was actually falling. The return on total assets fell from 18.78 per cent to 15.52 per cent (-17.4 per cent), return on capital employed fell from 7.78 per cent to 6.44 per cent (-17.2 per cent), margins declined from 8.04 per cent to 6.64 per cent (-17.4 per cent) and added value/pay went from 1.71 to 1.69 (-1.2 per cent). Earnings fell 3.50 per cent but retained profit fell by 47 per cent to only 22.55 per cent of the figure four years earlier. Noticeably, dividends are up 23.7 per cent over the same four years.

Not only are executives receiving increases larger than inflation, as your feature stated, but the most senior executives are doing virtually twice as well as the average you showed. Surely this suggests that the supposedly independent compensation committees need more rigorous attention to detail when setting standards and reviewing performance. Otherwise, how can such overall increases be awarded at the same time as performance is falling?

J Dennis Henry,
V I Consultants,
11 Clydebrae Drive,
Bothwell, Glasgow

Tax distortions on drinks harming UK pubs

From Mr Robin Simpson.

Sir, Your leader "Cross-Channel Shopping" (January 25) has some curious arguments. You seem to be saying that lower beer prices in supermarkets hurt pubs, but not lower beer prices from duty-paid imports! The facts are obvious. At least one in every seven pints drunk at home is a duty-paid import. This must hurt everyone who produces and sells beer in the UK, including pubs, clubs, off-licences and supermarkets – some 100,000 businesses employing around 500,000. On-licensed premises represent around 74 per cent of UK licensed outlets and are suffering accordingly.

The loss of revenue to the chancellor is at least £160m from beer duty and VAT. But it extends beyond that, damaging sources of all kinds of tax revenue from the businesses and individuals affected.

On pricing, your readers would not have guessed that wholesale beer prices, net of tax and discounts, have decreased relative to the retail prices index over the past three years. Externally imposed service costs on pubs have increased well above RPI. Beer prices in pubs, net of tax, are almost the lowest in the whole of the European Union; only Portugal is lower. Something has to give and the need is for fair competition in the single market, without distortion by the UK tax system.

Robin Simpson,
director, Brewers and Licensed Retailers Association,
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FINANCIAL TIMES

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Thursday January 27 1994

European defence

Yesterday's meeting of the British, French and German defence ministers was apparently an unprecedented event. It would be quite normal for any two of them to meet bilaterally, or for all three to meet with their colleagues in the Western European Union. But a trilateral meeting is a novelty.

That it has been held barely a fortnight after the recent Nato summit is not a coincidence. One important and perhaps insufficiently noticed effect of that summit has been to give a significant boost to what is known, in current politico-military jargon, as the "European security and defence identity" (ESDI). Previous attempts to develop this have been checked by the conflicting priorities of Britain and France. France believes that ESDI should be an aspect of the EU, distinct from and independent of Nato, while the UK opposes anything which might appear to compete with, undermine or otherwise weaken Nato.

At the summit President Bill Clinton not only reaffirmed the US's long-term commitment to European security, but also made it crystal clear that this commitment would be strengthened, not weakened, by the development of the ESDI, to which the new "combined joint taskforces" are intended to give tangible form. More important, he did so in a way that apparently carried conviction with European leaders, including notably President François Mitterrand.

France, no longer under pressure to return formally to the integrated Nato command which it left in 1966, and no longer suspecting the "Anglo-Saxons" of seeking to block the development of ESDI, has shed virtually all its inhibitions about working with Nato on a day-to-day basis. The UK for its part now feels much more relaxed and positive about ESDI. Current thinking in Whitehall is that it should be possible, when the Maastricht treaty is revised in 1996, to endow the EU with a common defence policy explicitly linked to the Atlantic alliance. This would, among other things, make it easier to rebut Russian objections to central and east European countries joining Nato, since membership of the alliance would become a logical part of their preparation for membership of the EU.

The faltering of the Russian reform process, and the chauvinistic noises heard from Russia in the last few months, have obliged west European governments to begin thinking seriously about defence; while the US attitude to the former Yugoslavia has strengthened the feeling, in London as well as Paris, that Europe should be better equipped to take military action on its own when necessary. At present Europe is clearly incapable of doing anything serious in the defence field without US leadership and direct involvement.

That will not be changed by occasional meetings of defence ministers, or for that matter by an amendment to the Maastricht treaty. If they seriously intend to develop a capacity to act, European governments will have to check and perhaps even reverse the reduction of their defence budgets, which everywhere except in France are virtually in free fall. They will need to look much harder at ways of getting a "bigger bang for the buck" (or for the Ecu), by co-ordinating their procurement policies and extending the single market to defence contracts. Above all they will need to develop a genuine unity of purpose, which means a capacity to reach common decisions and a willingness to act on them.

Of that there can be little hope until Germany overcomes the inhibitions it currently feels about joining in military operations, even when firmly convinced of their political necessity.

Public sector pay

Tough problems require tough but skilfully implemented solutions. The government's freezing of the public sector wage bill for the next three years is a suitably firm response to a gaping fiscal deficit and the inefficiency which still infects many areas of the public sector. Yet the government must avoid undermining the independent review bodies, which are in the process of making recommendations on the next round of public sector pay deals.

The three-year freeze on the public sector wage bill announced by the chancellor last September never implied a freeze on wages. If costs can be reduced and more efficient working practices devised then the savings made can be used to fund higher wages.

It is not yet known what the pay review bodies will recommend. Their role is to consider comparisons with the private sector, where pay is rising at an annual rate of 3 per cent, and when headline inflation is running at 1.9 per cent. It may be that some of the review bodies will see a case for increases significantly ahead of this inflation rate, but there is also a reasonable chance that they will call for rises which can be accommodated within a static overall pay bill.

If this happens, it will further increase the chances of completing the pay round without open conflict. Some public sector union leaders have talked of a spring offensive on wages, but in reality their members show little sign of wanting a fight. Union leaders would be wise to recognise this mood, since the government cannot afford to see its restrictions on pay in the public sector overturned at this stage in the deficit-reduction process. Any challenge would be firmly resisted.

Ministers, however, should beware the hubris which might arise from an easy victory this year. It is not in anyone's interest to see public sector wages slip seriously out of line with those in the private sector as the labour market tightens.

The widespread strikes and breakdowns in public service which led to the creation of the independent review bodies a decade ago have not necessarily been banished for ever. Before ministers risk undermining their advisers by casually ignoring their work in good times, they should reflect upon the long-term value of a mechanism that offers transparent analysis and an alternative to confrontation.

It is difficult to make sensible productivity projections across the public sector for the entire three-year period of the proposed pay freeze and ministers will be wise to consider the matter with care before leaping to convenient conclusions.

At the same time, ministers should recognise that their policies towards the public sector involve an unreconciled contradiction: on the one hand they favour decentralisation, contracting out and greater freedom for local management; on the other, they are using a blunt and centralised instrument on pay. It would be unwise to regard the three-year paybill freeze as beyond further debate.

Parent power

Who should run Britain's state schools, appoint the teachers and decide their priorities? The answer, the government says, is the school governors, the majority of whom are parents. The right to hire and fire teachers – the head teacher, in particular – was taken away from local authorities to stop them interfering in the day-to-day working of schools.

Now this apparently sensible reform has been cast into doubt by events at Kingsmead School in Hackney, east London. Ms Jane Brown, the head, last week achieved instant notoriety by refusing cheap tickets for her children to see the ballet *Romeo and Juliet*. She described Shakespeare's plot as "blatantly heterosexual", calling down a torrent of media interest and abuse for her political correctness. This abated somewhat after she apologised for her decision. But it then emerged that Ms Brown shares a house with a woman who chaired the school governors at the time of her appointment.

Hackney Borough Council, anxious to improve the poor image of its education service, launched an immediate inquiry into her appointment. To the council's horror, the governors have refused to suspend her during the inquiry. In this, they apparently have the backing of the parents: even those who condemn her refusal of the tickets say that she has been a good head. Parents have shown a healthy scepticism for Hackney's desire for a quick end to the affair. More to the point, they seem well able to separate Ms Brown's private life from her professional performance.

This has led to predictable calls for Mr John Patten, the education secretary, to intervene and remove Ms Brown as head. He can do this under powers left over from the 1944 Education Act. Mr Patten would be wise to ignore such calls, however, despite the prospect of popular acclaim for so doing. If parent power is to mean anything, the governors' decision – made with clear parental backing – must not be second-guessed from Whitehall.

ITALIAN ELECTIONS

As Italy prepares for a general election in March, the spectacle resembles interlocking galaxies. Politicians and parties are like planets orbiting each other with nothing to halt them.

The poll on March 27 will mark a watershed in the country's political development. A new electoral formula will introduce the principle of a first-past-the-post system and voters will choose from a plethora of recycled or new parties.

At this stage the outcome is unpredictable. Most political parties are short of funds, poorly organised and without any clear idea of where their votes are likely to come from – let alone the policies on which such votes might be sought.

The latest addition to the field is Silvio Berlusconi, the media magnate. He has chosen to ignore advice to refrain from direct politics and has decided to offer himself as the white knight for people "of goodwill" to rally round and prevent Italy being run by a left-wing government.

While no one will hazard a bet on the likely winner, or winners, at least one result of the election can be predicted. Italy will introduce a system that encourages parties to alternate in power. This is a turning point in political culture.

Until now Italy has been unique among western European democracies for its political immobility. Christian Democrat-dominated coalitions have backed each of Italy's 52 postwar governments. This lack of a genuine alternative to the parties in government has been a crucial ingredient behind the spread of corruption that has provoked the collapse of the old political system.

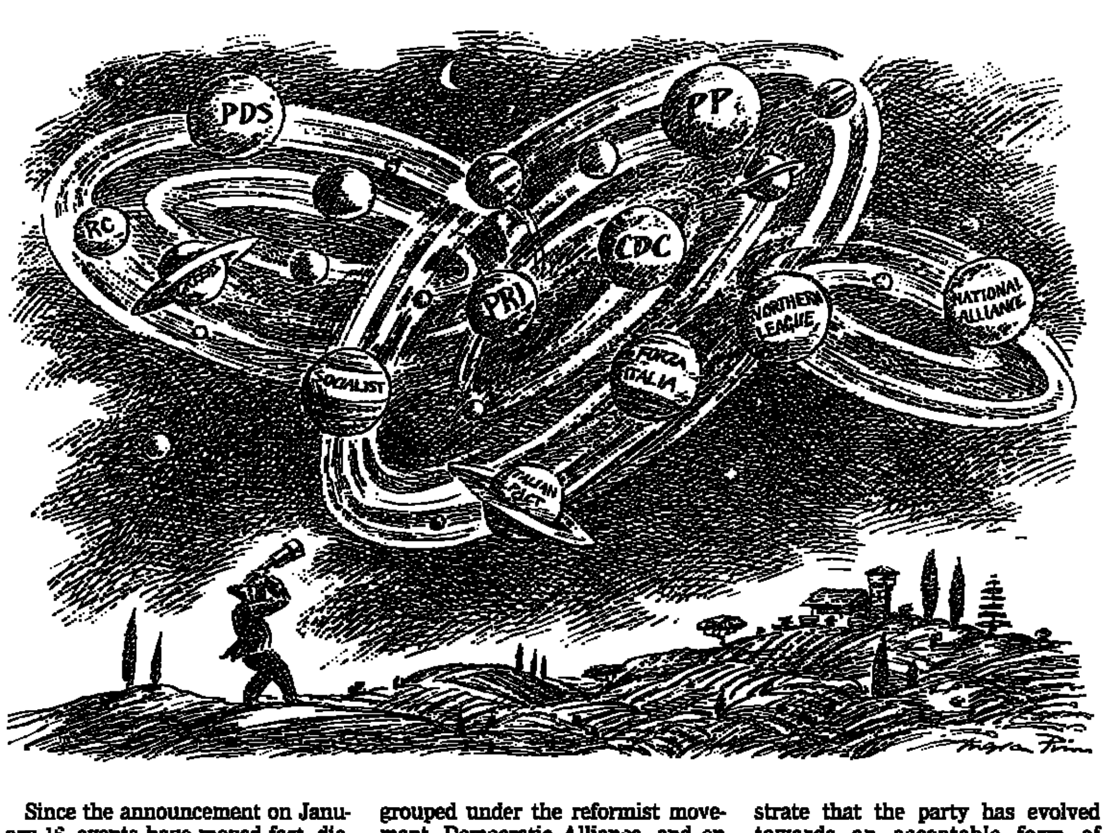
The poll is being held a mere 23 months after the last general election. But the early dissolution of parliament was an inevitable consequence of the discredit heaped on the traditional parties by two years of non-stop scandals. With one in six deputies under investigation, parliament had little moral claim to represent the people.

Local elections last June and November, using new electoral laws, demonstrated that the composition of parliament was out of balance with popular sentiment. The four parties that provided the notional majority for the technocratic government of Mr Carlo Azeglio Ciampi had come to account for well under 20 per cent of the popular vote.

Despite efforts by die-hards among the Christian Democrats and Socialists to prolong the life of parliament, President Oscar Luigi Scalfaro had no alternative but to announce a dissolution.

On the planet of the unholy allies

Robert Graham examines the realignment of Italy's political parties as they prepare for a general election



Since the announcement on January 16, events have moved fast, dictated by the former Communist Party of the Democratic Left (PDS). It is way ahead, both by virtue of its organisation and because Mr Achille Occhetto, its leader, has grasped the need to forge alliances under the new system, where 75 per cent of the seats are to be covered by majority voting.

Some 18 parties will be contending for a share of power. None, on current estimates, is capable of mustering more than 18-20 per cent of the vote, and most will win considerably less. The victor will, therefore, inevitably have to be a coalition of parties which will be formed in advance of the elections – a break with tradition.

The PDS has arranged an effective "progressive alliance" of candidates. It is composed of the Sicily-based clean government movement, the Network, the Greens, some radical Catholics, former Republicans grouped under the reformist movement, Democratic Alliance, and on occasions the rump of the Communist party, Reconstructed Communism.

The PDS has placed at the disposal of these groupings its considerable nationwide organisation, the best in Italy and inherited from the Communist party. In return, it has acquired the *de facto* right to act as the leader of the alliance. On the latest projections, this group is capable of winning at least 40 per cent of the vote.

Being thus organised while everyone else is either disorganised or squabbling over the nature of alliances, the PDS has dictated an important part of the battleground.

The campaign will be fought on whether Italy should have a government dominated by a party that is the heir to the Communists. This is certainly going to be Mr Berlusconi's chosen area of battle.

It will be up to the PDS to demonstrate that the party has evolved towards an acceptable form of social democracy, embracing the broad lines of a market economy, complete with privatisation and reduced state spending. The fact that the PDS ended up as a key supporter of the Ciampi government's 1994 austerity budget in parliament has yet to be appreciated by the electorate.

The success of the PDS will depend in good measure on how united or split the other parties are. The more the number of other parties and alliances in the field, the greater the PDS's chance of winning. The greatest number of groupings are fighting for the centre ground, to occupy the hole left by the 40 per cent of the voters traditionally accounted for by the Christian Democrats and their allies.

Mr Berlusconi's entry yesterday adds a "Ross Perot" factor to the equation. He risks splitting the centre vote, rather than acting as a coagulant as he pretends. He is an inexperienced politician and has been publicly warned to stay out of politics by every leading political figure.

His movement, Forza Italia (literally, the footballer's exhortation "Come on, Italy") is well organised, rich, controversially backed by his television stations and slick on public relations; but it cannot hide Mr Berlusconi's manifest vanity nor the thinness of his political ideas. He is also likely to become the biggest single target for media hate and investigation, particularly as his business rivals finance a big slice of the newspaper industry and support opposing parties. A "Stop Berlusconi" campaign is thus likely to be a significant feature of the elections.

Forza Italia will be most threatening if Mr Berlusconi makes an alliance with the neo-fascist MSI, which last week sought to gain greater respectability by rebaptising itself the National Alliance. The MSI performed strongly in the centre and south in last year's local elections, and is one of the fastest-growing parties.

Mr Berlusconi probably would have never been able to enter politics had not the Christian Democrats' authority been eroded. The party, founded in 1942, has been obliged to adopt a new identity with almost indecent haste to revive its fortunes. Last weekend it became the Popular party (PP), drawing inspiration from the similarly named party of the 1920s that was the forebear of the modern Christian Democrats.

The PP is still led by the chisel-faced Mr Mino Martinazzoli, the former Christian Democrat leader. It looks no different from its predecessor and espouses the same woolly platform of "Catholic values". The only difference is that the political dinosaurs like former Premier Giulio Andreotti have been excluded. Some 10 per cent of the outgoing Christian Democrat deputies have formed a break-away party – the Centre Christian Democrats.

Mr Martinazzoli's natural ally is Mr Mario Segni, the referendum leader and breakaway Christian Democrat. Mr Segni is not an easy partner and for the moment has opted for a deal with the populist Northern League of Mr Umberto Bossi. The latter could prove a useful marriage of convenience with the league delivering a sizeable slice of the vote in the north, and Mr Segni picking up the vote in the centre in the south.

At this stage all the potential alliances look at best opportunistic. With the exception of the PDS alliance, none augurs well for forming a credible, cohesive government.

Peter Marsh on a possible way of increasing the independence of the Bank of England

Court revolutions

As MPs debate independence for the Bank of England tomorrow, attention is turning to the role of the Bank's court, or governing body. Though the government is unlikely in the near future to give the Bank autonomy over interest rates, the question of how the court might develop over the longer term is exercising policymakers.

Mainly comprising captains of industry, plus six senior Bank officials, the 18-strong body meets every Thursday in the Bank's 18th-century "court room" to discuss general economic trends, the business outlook for the City and internal staff matters such as training. No formal decisions are taken, but the meetings channel outside views to the Bank officials, led by governor Mr Eddie George.

Some believe that a more formal role for the court may be a necessary step if the government is ever to move towards giving the Bank control over interest rates.

While the bill before MPs tomorrow – introduced by Tory backbencher Mr Nicholas Budgen – has little chance of becoming law, the debate will be another boost for those who argue that removing politicians from monetary decisions would lead to more stable economic policies.

The bill does not mention the court; Mr Budgen wants to concentrate on the main political and economic issues. But discussion about greater autonomy for the Bank is intrinsically linked to the future of the court, which has met virtually every week during the Bank's 300-year history.

Gatherings of the court are highly confidential, with minutes released in full only a century later – a lengthy delay even by British standards of official secrecy. Each court member receives £500 a year plus a weekly lunch, invariably consisting of smoked salmon and roast lamb. Members include Sir David Lees, chairman of engineering group GKN, Sir Christopher Hogg, chairman of Reuters, Sir Colin Southgate, chairman of Thorn EMI, and Sir "Chips" Keswick, chairman of Hambros Bank.

One person with firm views about what the court should do is Sir Peter Middleton, a former Treasury permanent secretary who is chairman of the Barclays de Zoete Wedd investment group. In October, he told MPs he was in favour of the court taking on people with a greater commitment than the current court to keeping prices down.

There are two broad ways the court could evolve. It could act as "joint arbiter", sharing decision-making with the governor, or as "cheerleader", leaving most judgments to him but helping the Bank sell its message and shielding the governor from policy attacks by outsiders.

The cheerleading approach would be the less ambitious option, but the court would still play a more public role than now. One court member says it is already taking a more pragmatic line: "We are getting ready to stand up and be counted behind the governor, should our support be needed."

But the "joint arbiter" model appears to be gaining the support of more of those who back Bank independence, partly because sharing out decision-making would make policy judgments more transparent. Mr John Watts, chairman of the Commons treasury and civil service committee, says: "Swapping the judgment of the chancellor of the exchequer for that of the governor, no matter how good he is, is not an attractive option."

One idea for ensuring accountability would be for court members in any new, independent Bank to testify every few months to a parliamentary committee.

Others make the point that bringing more people into the arguments over interest rates would mean more appropriate decisions being reached in the complex business of setting monetary policy.

Such an approach would put the Bank on a similar footing to the US Federal Reserve, the German Bundesbank and the newly independent Bank of France – which all share decision-making between full-time officials and selected outsiders.

Sir John Banham, a former director-general of the Confederation of British Industry and chairman of the Local Government Commission, says the governing body of an independent Bank should be analogous to the corporate boards of directors, which have responsibility for overseeing long-term strategy.

As to who Britain might pick for a revitalised court, the newly independent Bank of France might show the way. This month it selected the nine-strong body that will set monetary policy. It comprises three full-time Bank officials, two industrialists, a former government minister, a journalist, a financier and an economist. Mr Warwick Lightfoot, a former Treasury adviser, even suggests that, in the cause of attracting "serious players", the court could be opened to foreigners such as Mr Helmut Schlesinger and Mr Paul Volcker, former heads of the Bundesbank and Federal Reserve respectively.

Such an approach might go some way to assuaging the fears of those sceptical about moving towards Bank independence. It would offer a means of removing political interference while ensuring the process of decision-making was transparent, *spread over a relatively large* group of people and appropriate to the needs of the UK economy.

OBSERVER

Monastic numerology

■ What would Luca Pacioli, the Venetian monk credited with inventing double-entry bookkeeping, think of the unseemly battle brewing in his name?

1994 is the 500th anniversary of the publication of his last word on the subject, *Summa de Arithmetica, Geometrica, Proportioni et Proportionalita*. Pacioli's countrymen may have been yawning but the accountancy world is in ferment.

A couple of US academics want to mark the occasion, but they have been trumped already by the elderly Institute of Chartered Accountants of Scotland which is planning its own "Festival of Accounting".

Not to be outdone, the Institute of Chartered Accountants in England and Wales is now entering the lists with "Figures in proportion," an exhibition of its own original edition of Pacioli's ancient masterpiece. With all the excitement about double-entry accounting, the only unknown is whether the organisers can count on double-digit attendance.

Food for thought

■ The Michelin guide to hotels and restaurants in Great Britain and Ireland, 21 years old yesterday, remains as snooty as ever, despite advancing age. Only a couple of establishments are felt worthy of three stars, even though the number of one stars has now topped 50 for the first time.

Sadly, the passing years have also precipitated a degree of memory lapse. Journalists set out for the award ceremony at new one-star holder Leith's, in Kensington Road, as per the invitation, only to find themselves lost.

Forgivable, seeing that the collators of the 5,700 entries had omitted the all-important "Park" nestling between the Kensington and the Road.

Digging for gold

■ Britain's Department of Transport seems oblivious to all the talk in Whitehall about looking after taxpayers' money and maintaining a tighter grip on the government's finances.

When Labour MP John Spellar asked about the cost to the taxpayer of the government's decision to extend Eurotunnel's concession by 10 years, he got a dusty answer. Transport secretary John MacGregor said he could not estimate it "with any precision".

Eurotunnel clearly thought the extension represented serious money in the bank and is likely to quantify it in its forthcoming rights issue prospectus. In the meantime, Warburg Securities, Eurotunnel's broker, has publicly

estimated that the extension has added around £300m to the value of the project.

No reason why the taxpayer shouldn't be told.

Simply Simpkin

■ "So, do you think you're getting the hang of this derivatives business, Simpkin?" the bailiffs enquire with ill-concealed glee as they bundle the contents of Simpkin's office into their van.

Roger Beale's cartoon in Wednesday's FT, illustrating an article on those damnably tricky financial instruments called derivatives, did not escape the notice of one Guy Simpkin, head of quantitative research at BZW Asset Management.

Luckily he seems to have a sense of humour.

Papal bull

■ A Basle reader enquires whether the German central bank will henceforth be signalling a change in official interest rates with puffs of coloured smoke. His question is prompted only indirectly by the Bundesbank president's perceived proximity to God.

The staunchly Catholic Hans Tietmeyer, a former altar boy who once thought of becoming a priest, has been chosen as one of 40 members of a new interdenominational Academy of Social Sciences – set up by the Pope. The new seat of learning is an offshoot of the eminent but obscure Pontifical Academy of Sciences and, like the latter, will meet in a 16th century summer palace in the Vatican gardens. The idea is to examine global problems with the benefit of the church's sociological teachings.

Should make a nice break from studying the minutiae of M3.

Sweet sorrows

■ There is little more than a fortnight to go before the start of the Winter Olympics in Lillehammer, Norway, but one band of merrymakers familiar from the Albertville and Barcelona games will sadly not be there.

The men – and women – from Mars have failed to reach satisfactory terms with the International Olympic Committee to continue Mars' sponsorship of the Olympics. Mars stumped up about $25m to be a main sponsor of 1992's Albertville and Barcelona games. The starting price for major sponsors – such as Coca-Cola – which have stayed the course for Lillehammer 1994 and Atlanta 1996 has risen to $40m.

The IOC says its split with Mars was "amicable". But – *sotto voce* – the IOC, uneasily riding the two unrelated horses of commercialism and athleticism, was not overjoyed with Mars' desire to repeat its Barcelona antics – hordes of Mars employees swamping the Olympic village handing out sweeties to everything that moves.

Perish the thought that Coke should try to do the same when the Olympics hits its home town of Atlanta in 1996.

Deep breath

■ Talk about synergy. Japan Tobacco has moved into pharmaceuticals and plans to launch a drug that relieves the nausea experienced by patients treated with chemotherapy for cancer; a case of both beating *and* joining them, perhaps.

FINANCIAL TIMES
Thursday January 27 1994

Three companies agree venture to fend off competition

Brussels gives approval for steelmakers' merger

By Andrew Hill in Brussels

French, German and Italian steel tube companies yesterday won approval to merge, creating a bulwark against Scandinavian, Japanese and east European competition after the European Commission overturned an internal recommendation that the deal should be blocked.

After weeks of lobbying by the companies and their trade unions, the 17 European commissioners were split eight against eight on the issue as Mr Jacques Delors, Commission president, abstained. This made it impossible for Mr Karel Van Miert, competition commissioner, to obtain majority approval for his proposal to outlaw the deal.

Vallourec, a French steel tubing company, Dalmine, a subsidiary of Ilva, the Italian steel producer, and Mannesmann of Germany, wanted to form a joint venture called DMV, and cut capacity in high-technology seamless stainless steel tubes, which are used in the nuclear and chemical industries.

But the Commission's merger task force had said the deal should be blocked because it risked creating an anti-competitive duopoly in the European Union market. Together with Sandvik, the Swedish engineering group, DMV will have nearly 69 per cent of the EU market, with most of the remainder shared by Tubacex of Spain, Schoeller Bleckmann of Austria and Sumitomo of Japan.

Mr Jean-Claude Cabre, chief operating officer at Vallourec, welcomed the Commission's decision - which will be confirmed formally before the end of the week - and said: "Now we will have a level of competitiveness which will permit us not only to compete with Sandvik, but with Sumitomo, the eastern bloc and even Russia."

It is the first time since Mr Van Miert took over as competition commissioner in January 1993 that one of his proposals has been defeated in the Commission. The defeat is a setback for the merger task force, which had hoped to establish a new precedent for the treatment of duopolies with no structural links.

The three companies have been unable to make progress with the establishment of DMV during the inquiry, but after production cuts the joint venture will have a turnover of about FFr1bn a year, and employ 1,000 people.

The Commission has only ever blocked one deal under the EU's 1990 merger regulation: the Franco-Italian purchase of De Havilland, the Canadian aircraft manufacturer.

Van Miert's first defeat, Page 2

EC calls on France to freeze Groupe Bull capital injection

By Andrew Hill in Brussels and John Ridding in Paris

The European Commission called on the French government yesterday to suspend a FFr2.5bn ($420m) capital injection for Groupe Bull, the loss-making computer group, or face action in the European Court of Justice.

The French government and Bull's management expressed their determination to restructure and privatise the group. Bull said that a rationalisation plan was being finalised and would be presented to the Commission.

Once the French government has received official notice of the Commission's demand, it will have 30 days to present the plan.

The Commission's inquiry was triggered by a payment of FFr2.5bn to Bull in February last year by the previous French government. But Brussels yesterday extended the inquiry to include pledges of capital totalling FFr8.6bn from the government and France Telecom, the state-owned telecommunications group, made at the end of last year. It is the final FFr2.5bn tranche of that capital injection which the Commission wants suspended.

The Commission said information received last December from the French government, following the announcement of the new capital increase, was "composed of a series of declarations of intent and of goals which do not constitute a restructuring plan".

French officials say Bull needs time and the capital injections to restructure. "My feeling is that the blocking of the FFr2.5bn would prevent progress at the company and I ask for the same treatment as obtained by Ekostahl in Germany and the Italian steel industry," said Mr Gérard Longuet, industry minister, in an interview with La Tribune Desfosses, the French business daily. He was referring to deals agreed by EU industry ministers to solve disputes over subsidies for state-owned steel companies.

"Bull is like a liner, not a bicycle and therefore the negotiation of bends takes a bit longer than one would hope," said Mr Longuet. Bull said that its recovery plan is already bringing improvement and sales are stabilising.

Separately, the Commission has opened an investigation into subsidies granted by the city-state of Bremen in Germany to the Klöckner steel mill.

The Commission says most of a DM250m ($143m) cash injection to the company will come from public funds, because state holding companies are part of a consortium planning to buy the mill.

Hosokawa to fight on even if reforms are blocked

By William Dawkins in Tokyo

Japan's prime minister, Mr Morihiro Hosokawa, plans to fight on, even if parliament fails to pass his political and electoral reform proposals by Saturday, the end of the present session.

Mr Hosokawa yesterday denied earlier reports from one of his top advisers that he would resign or disband the cabinet if the plans remained blocked by then. "There's no chance of that," he was reported as saying.

His remarks added to the confusion over the ruling coalition's intentions after Friday's surprise parliamentary vote against the four reform bills on which Mr Hosokawa has staked his future.

The bills propose tough controls on political funding and the abandonment of multi-seat electoral districts - blamed for encouraging politicians to compete for votes on their ability to shower voters with cash and favours. Many members of parliament fear they would lose their seats as a result, but public support for reform is strong.

Mr Hosokawa was planning to make a television appeal for public backing yesterday, but apparently changed his mind on the ground that that might jeopardise his final attempt to reach an accord with the opposition Liberal Democratic party.

In a sign of encouragement for Mr Hosokawa, Mr Masaharu Gotoda, a leading member of a 70-strong group of pro-reform LDP members of parliament, said he would back the government's bill if it came to a forced final vote.

However, the rest of the LDP seemed as unclear about the next step as the coalition. The LDP set stiff conditions for a compromise deal with Mr Hosokawa, but then confusingly told a parliamentary panel, set up to discuss the possible compromise, it was not prepared for a debate. The panel session lasted a bare five minutes.

The LDP's latest compromise plan calls for an increase in the number of single-seat constituencies proposed by the government from 274 to 300, and reducing the number of seats chosen through proportional representation from the coalition's 226 to 200.

That is an increase on the LDP's previous demand last month for a 280-seat constituency system - and can be taken as a hardening of its position.

Proportional seats would come from 11 districts, rather than the government's proposed single national constituency. The proposed ban on corporate donations to individual politicians would be lifted.

The seven-party coalition, however, cannot afford to accept the LDP's latest plan because the Social Democratic party, on which it depends for a majority, is unshakeably committed to a ban on corporate donations to individuals.

THE LEX COLUMN

Live now, pay later

The gilts market was inclined to shrug off the disappointing result of yesterday's gilt auction. In the short run it may have reasons for doing so. Overseas investors have little interest in stocks with a maturity as long as 15 years, so this auction depended more than usual on domestic investors. The run-up in the market since the initial auction announcement and the uncertain tone of international bond markets may have made them more selective about the timing and price of their purchases. That does not add up to a basic shift in direction, but it does add piquancy to the question of the government's apparently more relaxed attitude to public sector pay.

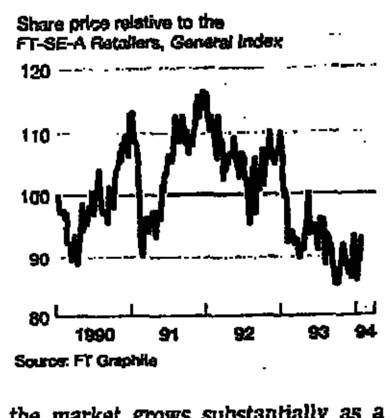
Even on this score, gilt bulls can find reasons not to worry. With price pressures so depressed there is little risk of pay review body awards rekindling general inflation. The government may manage to finance the awards with productivity improvements. If it does not, the impact on the PSBR should be small, and nothing to worry about when it is well ahead with funding.

The danger lies in the slightly longer term. A year ago the political pressure on the government was to cut interest rates in the face of a weak economy. Now it is focused more on the fiscal side as MPs have become aware of the impact of lower rates on savers and the unpopularity of higher taxes. The government is pretty well locked in to its programme of tax increases but there is always room for slippage on spending. Unless it is careful, fiscal policy could turn out to be looser and interest rates higher than the City now assumes. Neither gilts nor equities could view that prospect with relish.

FT-SE Index: 3436.1 (-7.9)

WH Smith A

Share price relative to the FT-SE-A Retailers, General Index



Source: FT Graphite

W H Smith

W H Smith's rather glum results neatly underlined the tough trading conditions in the high street. While the company held on to its gross margin and reported an accelerating sales trend towards Christmas, raising turnover is clearly still a tough job. That is unfortunate, since pressure on margins is likely to mount in several of Smith's businesses. Thus far News International has borne the full weight of its newspaper price reductions. If the lower prices become permanent, there must be a strong temptation to share the pain with distributors and retailers. Lower CD prices - ironically something for which Smith's has been arguing - may be on the way. Unless the market grows substantially as a result, Smith's revenues will decline. If the Net Book Agreement eventually goes, it may well cut margins at the popular end of the market.

All of that will test Smith's management skills, particularly since in the past the company has had the good fortune to operate in markets, such as books and newspapers, with above average inflation. Lower margin businesses and tough competition mean slips will not be so easily forgiven. It will be interesting to see whether the company can cut its cost base to adjust to that world. As well as improvements behind the scenes, that may mean rolling out good ideas like Virgin Megastores faster. And if that is not enough to keep the new chief executive, Sir Malcolm Field, occupied, there is always the only partly de-fused land mine which is Do It All.

Small companies

After four years in the doldrums, small company shares finally delivered in 1993. Measured by the Hoare Govett Smaller Companies Index, the minnows delivered a total return of 44 per cent last year, outperforming the market by the largest margin since 1978. The composition of the index is a partial explanation; interest rate-sensitive stocks such property companies are clustered in the lower reaches of the market, while unfashionable consumer goods companies are scarce. But size itself appears to be just as important as sector. The bottom tenth of the index measured by market capitalisation delivered a total return of almost 100 per cent.

If recovery stays on track there could be more to come. Manufacturing and capital goods companies stand to benefit most as the UK economy turns, and are also heavily represented among smaller capitalised stocks. The recent outperformance of the FT-SE Mid 250 index, which is also weighted in the direction of manufacturers, suggests that investors appreciate as much. As with the very largest companies, though, much now depends on whether companies can deliver the earnings and dividend growth implied by high ratings.

There are also risks along the way. While the number of bankruptcies among smaller companies fell sharply in 1993, the experience of the 1980s suggests that trend might be expected to reverse this year as some companies over-reach going into recovery.

Hanson

The tantalising glimpse of Beazer Homes offered by Hanson yesterday will lay a few ghosts to rest. Beazer's land bank will last for more than three years at the current rate of house sales, which should allay fears that the business has been squeezed for cash under Hanson's stewardship. If land was run down through recession, recent acquisitions have been sufficient to replenish stocks. Important details such as Beazer's cost per plot will have to wait for the publication of a full prospectus. But the £99m asset write-down taken in 1992 shows that measures have been taken to protect profit margins.

Since operating margins are already a respectable 13 per cent, though, Beazer cannot boast the same recovery prospects as some of its peers. Unless house price inflation returns in earnest, profits growth will have to rely on rising unit sales. That argues for a lower share rating than house builders now operating on wafer-thin margins. The final price will also depend on Beazer's balance sheet. Since house builders generally absorb cash going into the upturn - as profits are ploughed back into land - too much debt could raise fears of a rights issue further down the line.

Assuming the prospectus contains no such nasty shocks, and a multiple of perhaps 12 times this year's likely earnings, Hanson might still raise more than £400m from the sale. The outperformance of other house builders this month suggests investors are anything but tired of the sector. With April's tax rises looming, there could be a danger in waiting too long.

Patriots

Continued from Page 1

attack this year or next.

Mr Rhee Byoung-tae, the defence minister, said North Korea completed preparations for war last year and has proclaimed 1995 as the year for unification of the country.

If the nuclear issue remains unresolved or if the North Korean government is threatened by internal disturbances because of food or fuel shortages, Pyongyang might attack, he added.

The deployment of the Patriot missiles, which were used against Iraqi Scud missiles during the 1991 Gulf war, might begin if no progress is made soon on nuclear inspections.

German power supply plan

Continued from Page 1

open its market to cross-border supplies once neighbouring countries did the same, he said.

The first opening in the German market for foreign competitors came last year, when an Anglo-US consortium, including Morrison-Knudsen of the US and Britain's PowerGen, bought the Mibrag brown coal field in east Germany, and with it access to the east German electricity grid. The latest measure would open up the whole German market to similar ventures, in gas as well as electricity.

Initial reaction from the utilities was hostile. "Of course we do not like it," an RWE spokesman said. The German energy suppliers say they can not guarantee supplies to uneconomic, outlying areas of their grids if they do not control an effective monopoly. They also say that they would face unfair competition if foreign suppliers entered the market because German utilities are required to help subsidise the domestic coal industry.

German electricity costs industrial consumers about six pfennigs (3.4 US cents) a kilowatt hour more than comparable supplies in France, which relies more on nuclear power.

There are more than 1,000 electricity utilities, although the three largest control the grid, and all access to it.

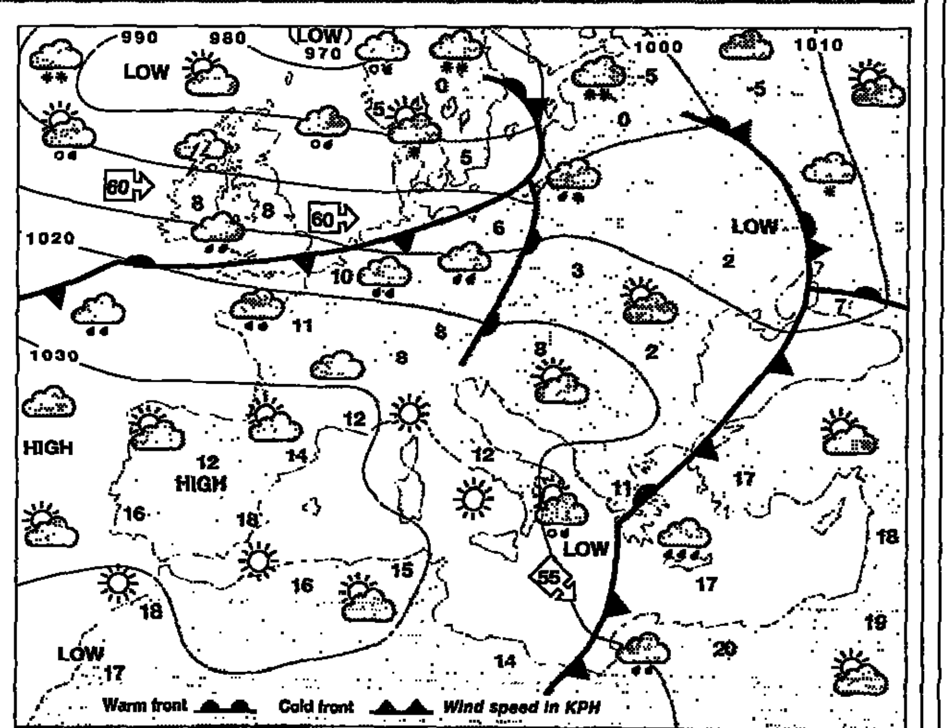
FT WEATHER GUIDE

Europe today

A wavering frontal zone from southern Britain across the Benelux and northern France will give overcast skies and a lot of rain, especially in Belgium. Westerly winds will reach gale force over the North Sea and the Channel. Ireland and Scotland will have frequent showers and gusty winds. High pressure over the Azores will produce fair weather in southern France, Spain and Portugal with abundant sunshine along Spanish coasts. The Alps will be cloudy except in southern parts. Low pressure will mean rain or showers in Greece, the former Yugoslavia, Bulgaria and north-west Turkey. Only Scandinavia will be wintry, with snow and temperatures below freezing.

Five-day forecast

A westerly air flow will continue to influence western and northern Europe, producing periods of rain and strong westerly winds. South-east Europe will remain unsettled. Strengthening high pressure over the Azores later in the week will mean settled conditions and higher temperatures during the weekend in south-west and later central Europe.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Belfast	hail	6	Cardiff	shower	11	Frankfurt	rain	9	Malta	sun	13	Rio	fair	28
	Celsius		Belgrade	cloudy	6	Chicago	sleet	-3	Geneva	cloudy	5	Manchester	cloudy	9	Riyadh	sun	21
Abu Dhabi	sun	22	Berlin	drzzl	8	Cologne	rain	9	Gibraltar	sun	17	Manila	cloudy	30	Rome	fair	14
Accra	fair	32	Bermuda	fair	22	D' Salaam	fair	30	Glasgow	thund	6	Melbourne	fair	30	S. Frsco	fair	12
Algiers	sun	16	Bogota	cloudy	22	Dakar	fair	21	Hamburg	rain	10	Mexico City	cloudy	21	Seoul	fair	1
Amsterdam	rain	10	Bombay	sun	35	Dallas	cloudy	13	Helsinki	snow	-4	Miami	fair	27	Singapore	cloudy	30
Athens	rain	14	Brussels	rain	10	Delhi	fair	22	Hong Kong	fair	21	Milan	sun	8	Stockholm	sleet	0
B. Aires	shower	23	Budapest	cloudy	8	Dubai	sun	22	Honolulu	shower	26	Montreal	snow	-10	Strasbourg	rain	12
B.ham	rain	11	C.hagen	rain	6	Dublin	cloudy	8	Istanbul	rain	8	Moscow	snow	-4	Sydney	fair	24
Bangkok	fair	33	Cairo	fair	19	Dubrovnik	cloudy	12	Jersey	rain	12	Munich	cloudy	9	Tangier	sun	18
Barcelona	fair	14	Cape Town	sun	26	Edinburgh	shower	7	Karachi	sun	30	Nairobi	fair	28	Tel Aviv	sun	17
Beijing	fair	0	Caracas	cloudy	25	Faro	sun	18	Kuwait	fair	20	Naples	fair	12	Tokyo	fair	6
									L. Angeles	fair	16	Nassau	fair	26	Toronto	snow	-6
									Las Palmas	fair	19	New York	snow	-4	Tunis	fair	15
									Lima	cloudy	26	Nice	fair	14	Vancouver	fair	7
									Lisbon	sun	16	Nicosia	fair	16	Venice	fair	8
									London	rain	12	Oslo	cloudy	-2	Vienna	cloudy	10
									Lux.bourg	rain	6	Paris	rain	11	Warsaw	rain	3
									Lyon	cloudy	5	Perth	fair	35	Washington	sleet	3
									Madeira	shower	17	Prague	rain	7	Wellington	fair	18
									Madrid	sun	12	Rangoon	sun	31	Winnipeg	fair	-11
									Majorca	sun	17	Reykjavik	snow	-8	Zurich	cloudy	8

FINANCIAL TIMES
COMPANIES & MARKETS
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IN BRIEF

DuPont rises in final quarter

Cost-cutting helped DuPont raise its profits in the final quarter of last year. After-tax operating earnings rose by a quarter for the year as a whole, to $1.7bn. The company highlighted improvements in its petroleum business, where cost-cutting on the upstream side and higher margins on refining and marketing pushed operating income up to $163m from $94m the year before. Page 22

Changes likely from Trafalgar auction
Swiss Bank Corporation and Robert Fleming, the investment banking groups, are likely to initiate a significant change in London stock market practices later this week by holding an auction for the rump of Trafalgar House's £355m rights issue.

Hanson reveals Beazer figures
Hanson has revealed that Beazer Homes, which is the fourth-largest home build in the UK, made an operating profit of £37.5m in the year to September 30 on sales of £276m. Hansom, which has previously kept financial information about the company under wraps, aims to float Beazer by the end of March. Page 20

W.H. Smith earnings rises 11.2%
W.H. Smith, the retail and distribution group, yesterday announced an 11.2 per cent rise in interim pre-tax profits, but said it was still cautious about consumer spending. Page 20

Rescue package boosts Moulinex stock
Moulinex, the troubled French household electricals group, yesterday saw its shares rise sharply on the Paris stock market after announcing that it had agreed draft proposals for a financial rescue package. The company's shares closed FFr9 better at FFr128. Page 21

Scott Paper to cut workforce by 25%
Scott Paper, the Philadelphia-based manufacturer of personal care paper products and printing papers, is to reduce its worldwide workforce by 25 per cent to in an effort to cut costs. The company intends to shut down some of its older tissue manufacturing plants in the US and Europe. Page 22

Doubts over Vancouver exchange reforms
A commission of inquiry has urged sweeping regulatory reforms to improve the image of the scandal-plagued Vancouver stock exchange. But several key participants, including the VSE itself, have expressed doubts whether the proposals, which include new supervisory bodies, will achieve their desired goals. Page 22

Competiton hits Wm Low's sales
Wm Low says growing price competition has pushed its like-for-like sales and gross margins down. The Dundee-based grocery chain is also *cutting 41 jobs*. Shares in dropped 17p to 174p yesterday as a result of the announcements. Page 24

Codelco probes futures 'irregularities'
The world's biggest copper producer, Codelco, has launched an investigation into "serious irregularities" in futures trading that could result in losses of up to $100m (£66.60m). Three executives have resigned following yesterday's revelations that authorised limits for futures trading were exceeded by several times. Page 28

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Lufthansa	189	+	9.5
Springer Axel	685	+	12
Falls			
Daimler Benz	788.5	-	8.5
Deutsche Bank	801	-	10.8
Mercedes	779.5	-	8.5
Schering	1070	-	16
NEW YORK ($)			
Rises			
Bethlehem Steel	22⅞	+	1
Citicorp	40⅝	+	1¼
Lotus Dev	54½	+	1⅝
Falls			
Compaq	81⅞	-	1⅝
IBM	56¾	-	1½
Intel	63½	-	1⅛

PARIS (FFr)			
Rises			
Bancaire Cie	648	+	21
Ecco	665	+	15
Moulinex	128	+	9
Peugeot	835	+	13
Falls			
Geophysique	590	-	10
Soc Generale	737	-	10
TOKYO (Yen)			
Rises			
Daiwa Secs	1490	+	40
NEC	980	+	21
Nikko Secs	1230	+	40
Nomura Secs	2090	+	50
Pioneer Elec	2930	+	80
Sony	5870	+	100

New York prices at 12.30.

LONDON (Pence)			
Rises			
Bespak	370	+	15
Bolcanth	186	+	14
Campari Intl	68	+	4
Chiltern Radio	138	+	14
Coal Invs	55	+	4½
Domino Print	570	+	32
Gowett & Co	424	+	15
Kaynes Food	465	+	22
Inveresk	279	+	11
Meyer Intl	563	+	13
Rotork	431½	+	9½
Shandwick	23½	+	3
Lonsdale	312	+	18
Waverley Mng	48	+	5½
Falls			
Bradford	2¾	-	1¼
Berry Birch	130	-	25
Densitron	35	-	5
Fairline Boats	375	-	15
Greggs	470	-	13
Hogg Group	130	-	22
Low (Wm)	174	-	17
Park Food	787	-	14
Travis Perkins	343	-	12
Unigate	416	-	12

Metallgesellschaft's US inquest

By David Waller in Frankfurt

Fresh evidence has emerged that the Metallgesellschaft supervisory board was uneasy about the activities of the group's US subsidiaries months before problems at its New York trading arm drove the group to the brink of collapse.

Mr Ronaldo Schmitz, chairman of the Metallgesellschaft supervisory board, is understood to have appointed KPMG Deutsche Treuhand, chief auditors to the Metallgesellschaft group, to carry out a review of financial systems and accounting policies at MG Corp, the diversified commodities trading arm, and other US subsidiaries normally audited by another accounting firm.

The appointment was made in the first week of last October and was in addition to the normal audit of Metallgesellschaft's US operations conducted by Arthur Andersen for the year to September 30.

The disclosure will add fuel to the debate taking place in Germany about how to apportion blame for the debacle afflicting Germany's fourteenth largest company.

Although Mr Heinz Schimmelbusch, the group's former chief executive was sacked on December 17 after the scale of losses triggered by MG Corp became apparent, it is not clear that the supervisory board can be exempt from all responsibility.

The audit review suggests that the supervisory board was aware of possible weaknesses in internal controls at the US subsidiaries – but not so worried that it

Ronaldo Schmitz: launched financial review at MG Corp

treated the issue with great urgency.

Neither Mr Schmitz nor KPMG was prepared to comment yesterday but it is understood that the accounting firm did not deliver the results of its inquiry until mid-December, after the scale of MG Corp's losses had started to become clear.

This was also well after the supervisory board had renewed Mr Schimmelbusch's contract as chief executive for a further five years.

This took place on November 19. Had Mr Schmitz's worries about MG Corp been more pressing, he could have opposed Mr Schimmelbusch's reappointment.

Mr Rainer Lepper, chairman of the works' council at Metallgesellschaft and a member of the group's supervisory board, said yesterday that Mr Schimmelbusch was reappointed on that day after making a convincing presentation about the group's future without mention of difficulties in the US.

The supervisory board asked Mr Schimmelbusch whether there were any other problems. Mr Schimmelbusch said there were none, Mr Lepper added.

Earlier this month Metallgesellschaft was obliged to restate its actual and potential losses at DM3.3bn (£1.25bn) – nearly 10 times the level of losses first reported for the 1992-93 financial year – and bankers rescued the company by agreeing to a DM3.4bn bail-out package. The losses were largely a result of speculative derivatives trading carried out by MG Corp.

Arthur Andersen said yesterday that it remained auditor to MG Corp.

MG's tangled dealings with Castle Energy Corp, Page 20

Philip Morris profits dive 72%

By Richard Tomkins in New York

Last year's cut in the price of Marlboro cigarettes and a heavy restructuring charge combined to produce a 72 per cent slump in net profits to $339m for Philip Morris, the US cigarette, food and beer group, in the fourth quarter.

But the company claimed its cigarette pricing strategy was working because Marlboro had regained market share, showing that consumers were still prepared to make decisions based on brand preference rather than price alone.

Group operating profits fell by 28 per cent to $1.95bn in the quarter because the downturn caused by lower domestic cigarette prices outweighed a 13 per cent increase in operating profits from the rest of the group's businesses.

The company also took a $457m charge against net earnings for the restructuring that it announced in November. The restructuring involves the loss of 14,000 jobs worldwide and the closure or scaling down of 40 plants.

Earnings per share fell from $1.34 to 38 cents.

Results for the full year were broadly in line with those predicted by the company in November. Sales were 3 per cent ahead at $60.9bn, but after the restructuring charge and a $477m provision for accounting changes, net earnings fell from $4.94bn the previous year to $3.09bn. Earnings per share fell by 35 per cent from $5.45 to $3.52.

Claiming a successful outcome for its decision to cut 40 cents off the price of Marlboro and its other premium cigarette brands last April, Philip Morris said research showed that Marlboro had increased its share of the US market from a low of 21.5 per cent before the cuts to 26.6 per cent in November.

Analysts believe Philip Morris's recovery in market share will allow the company to start pushing up the price of Marlboro now the cigarette price war seems to be over.

Mr Michael Miles, chairman and chief executive, said Philip Morris had emerged from 1993 stronger and more competitive.

The cigarette pricing strategy had achieved its objectives, all other segments of the business had shown good profit improvement, and the restructuring should contribute to profits growth in all the group's businesses.

Compaq's 70% rise exceeds forecasts

By Louise Kehoe in San Francisco

Compaq Computer recorded record fourth quarter and year-end results amid "unprecedented demand" for its personal computer products. The US company aims to overtake IBM and Apple Computer to become the world's largest PC manufacturer by the end of 1995.

Net income for the quarter jumped 70 per cent to $151m, or $1.73 per share, well above the highest Wall Street predictions. This compares with $89m, or $1.10 per share in the same period of 1992. Fourth quarter sales surged 55 per cent to $2.2bn, against $1.4bn.

For the year, the personal computer manufacturer reported revenues of $7.2bn, an advance of 75 per cent over $4.1bn in 1992. Net income more than doubled to $462m, or $5.35 per share, against $213m, or $2.52.

"We experienced strong demand for desktop, portable and server products in our traditional markets and dramatic growth of consumer sales through retail outlets," said Mr Eckhard Pfeiffer, Compaq president and chief executive.

Sales in North America grew by 100 per cent in 1993 to $3.7bn. In developing markets including Japan, Latin America and the Pacific Rim, sales were up 111 per cent at $800m. European sales grew 61 per cent in local currencies, but the strengthening dollar reduced growth to 44 per cent at $2.7bn, Mr Pfeiffer said. Worldwide, unit shipments reached 3.1m, an increase of 98 per cent over 1992.

Last week, Compaq announced plans to expand its manufacturing facility in Scotland. It is also increasing its production capacity in Singapore and opening a new facility in China.

During 1993, the company also expanded its distribution adding more than 6,500 new third-party re-sellers to bring the total to about 16,000 worldwide. The company is establishing new subsidiaries in Hungary, Poland and Portugal.

Mr Pfeiffer said that Compaq had made significant progress toward its goal of becoming the world's leading supplier of personal computers, gaining about four percentage points during 1993 to achieve about a 10 per cent market share.

With Apple struggling to maintain its position in the PC market and IBM gaining about half a percentage point in market share last year, Compaq is growing the fastest.

Mr Pfeiffer said that if current trends continued, it could overtake Apple Computer and IBM to become the number one PC manufacturer in 1995.

Vanessa Houlder explains a remarkable recovery in the UK property market

Bulls make it an office party

After three years of deep recession, the UK commercial property market is staging a spectacular comeback.

Since the middle of last year, investors have embarked on one of the most frenetic bouts of buying in decades. "This is the strongest bull market for property since 1972," according to Mr Greg Nicholson of Hillier Parker, chartered surveyors.

Fierce competition for investment properties, frequently attracting as many as 15 bidders, has driven down yields sharply. Yields – the ratio of income to value – for the most sought-after investments, such as high street shops and retail warehouse parks, are close to record lows. In central London, agents report that office yields fell by 1.8 percentage points to 8.3 per cent last year, the greatest annual decline on record.

Investors are starting to see strong returns from property, albeit at levels that lag the equity market. UK property achieved a total return of 18.6 per cent in 1993, compared with negative returns of -2.1 per cent in 1992, according to Richard Ellis, chartered surveyors.

There are even stirrings of interest in the development market. "Speculative development is now viable again in central London, assuming very low land costs," says Mr Geoff Marsh, managing director of Applied Property Research.

But the remarkable turnaround in sentiment does not stem wholly from a reappraisal of property's intrinsic merits. In many regions of the country, rents are still falling, vacancy rates remain well above long-term trends and letting boards litter town centres.

Admittedly, investors are looking ahead to a recovery in rental growth, which many believe is likely to resume at the end of this year. But that does not fully account for such a pronounced revival at this stage of the property cycle.

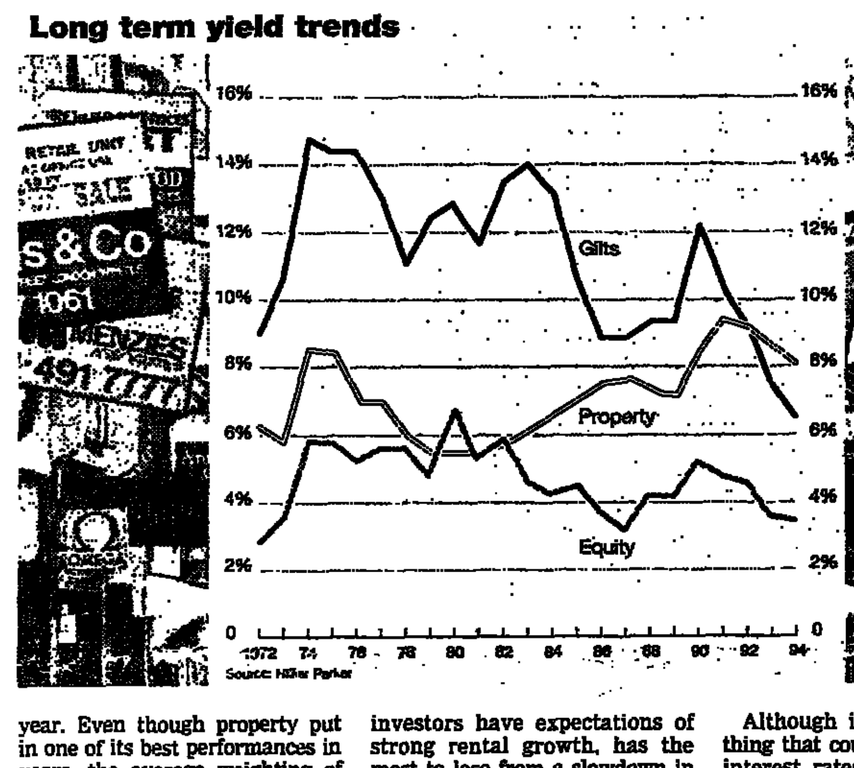
Instead, the surge in demand is mainly attributed to the strength of the government bond market, where long gilt yields fell from 8.8 per cent to 6.4 per cent in the course of last year.

As equity and bond yields plummeted, the relatively high yields available on property became increasingly attractive. Last year the institutions increased their allocations of money to the sector – a trend likely to continue.

Many analysts think that property will outperform the stockmarket. The stockbroker UBS has predicted returns from property of more than 20 per cent this year and 12 per cent in 1995, compared with returns from equities of about 3 per cent in 1994 and less than 5 per cent in 1995.

Moreover, institutions need to invest extra money in property to compensate for the outperformance of the equity market last

Long term yield trends



Source: Hillier Parker

year. Even though property put in one of its best performances in years, the average weighting of property in an institutional portfolio fell by a percentage point from 7.5 per cent at the end of 1992, in the view of Mr Peter Evans of DTZ Debenham Thorpe, chartered surveyors.

Although the investment institutions are currently the most active buyers of property, there is also strong demand from property companies. The quoted property sector is flush with cash to spend on new investments, after raising £2.39bn through rights issues last year.

As confidence comes back to the property market, there has been a shift in the type of property being sought.

During the the recession, investors played safe. Demand was concentrated on buildings that had secure incomes paid by financially robust tenants on long leases. But as concern about tenant bankruptcies diminishes, investors are placing less emphasis on security and more on the potential for rental growth. Location is also regaining much of its traditional importance.

The question now preoccupying investors is whether the rush to put money into property has pushed values up too far, too fast. The intense competition for property deals has led some investors to turn a blind eye to slight imperfections in property acquisitions, which potentially could lead to difficulties. "There are going to be some nasty shocks," predicts Mr Matthew Oakeshott of Olim, a fund manager.

More generally, property investors are at risk both from a slower-than-expected improvement in the economy or from a rise in interest rates resulting from an upturn in inflation.

The nature of the risk varies for different types of property. Low yielding property, where investors have expectations of strong rental growth, has the most to lose from a slowdown in the economy.

High yielding properties, which have meagre rental growth prospects because the incumbent tenants are trapped by a long lease into paying well above the market rent, have the most to lose from a rise in inflation and an increase in interest rates. That is because the investment performance of this type of property resembles a bond, and so would be affected by anything that altered bond yields, such as a rise in inflationary pressures.

Although investors fear anything that could trigger a rise in interest rates and bond yields, they may also feel a certain nostalgia for the era of unrestrained inflation. In the 1970s, high inflation came to the rescue of many bad decisions by indiscriminately boosting property values.

No such help is on hand this time round. "Low inflation should make developers and investors focus more on fundamental supply and demand issues," says Mr Peter Evans of DTZ Debenham Thorpe. "They will not have the luxury of being bailed out of bad decisions."

UK gilts auction disappoints

By Antonia Sharpe

The Bank of England's first 1994 auction of UK government bonds received a lukewarm reception yesterday. The auction of 6¼ per cent treasury stock due 2010 raised £2.75bn ($4.12bn) and the average accepted price was £98.20 for a yield of 6.38 per cent.

The cover, or the amount by which demand exceeds supply, was 1.21 times, below market expectations of 1.5 times. This compares with cover of 2.19 for the December auction, but remains above 1993-94's lowest level of 1.1.

Another sign of subdued investor interest was the "tail", the difference between the average accepted price and the lowest. It was two basis points compared with expectations of one basis point or less.

Although long-dated gilt prices fell by as much as ¾ point, analysts were relaxed about the disappointing level of investor interest. "The below-average cover and the above-average tail in today's auction is no barrier to performance in the weeks ahead," said Mr Simon Briscoe, a gilts analyst at SG Warburg.

He also noted that the sum raised yesterday brought gilt issuance for the year to about £46bn, which compared with an estimated funding requirement of £49bn. This meant that the Bank of England was well ahead of schedule with its funding programme.

Mr Nigel Richardson, head of bond research at Yamaichi International, said that the good long-term outlook for inflation in the UK was likely to support the market. "The near-term scope for indigestion is temporary."

Other analysts were confident that the market would soon recover its poise in the widespread belief that much of yesterday's paper had gone straight out of the market and into the long-term investment portfolios of domestic institutions.

Lex, Page 18

Bayer upgrades profits and sales forecasts

By Christopher Parkes in Frankfurt

Bayer, the German chemicals group, has up-graded its 1993 profits and sales forecasts, consolidating expectations that it will pay an unchanged DM11 dividend for the year.

According to Mr Manfred Schneider, group chairman, a better-than-expected fourth quarter and a lift from the strengthening dollar would bolster sales to around DM41bn ($24.1bn), compared with DM41.2bn in 1992, and his late-November forecast of DM40bn. Bayer calculates its results using year-end exchange rates.

Pre-tax profits would perhaps be a bit better than the expected DM2.2bn, he said.

Mr Schneider repeated his forecast that the four-year decline in earnings had ended. Bayer had reached the bottom of the trough, he said, although he predicted unchanged earnings for the current financial year.

The VCI chemicals industry association, of which Bayer is a leading member, last week said the worst was past, but there were no signs of a lasting recovery.

Mr Schneider said Bayer intended to deal with the problems of low-capacity utilisation by negotiating more co-operation deals with other manufacturers in dyes, organic chemicals and plastics. The group was running some plant at 50 per cent to 60 per cent of capacity, he said.

He expected to conclude co-operation negotiations by the end of March aimed at giving the company a foothold in the fast-growing US market for generic drugs, but it would continue to focus most of its attention on its established role as a supplier of branded pharmaceuticals.

Some 45 per cent of this year's DM3.3bn research and development budget would be devoted to pharmaceuticals, over-the-counter and diagnostic products. These divisions absorbed about 43 per cent of last year's DM3.2bn budget.

BCI improves 1.8% to L268bn

By Robert Graham in Rome

Banca Commerciale Italiana (BCI), the commercial bank controlled by IRI, the Italian state holding company, has announced parent company net profits up 1.8 per cent to L268bn ($163m) in 1993.

The results, coming shortly before the bank is privatised, reflected a heavy increase in tax provisions, to L713bn, up from L290bn, and a large increase in sums set aside for possible loan losses.

The loans provision has been increased to L554bn from L373bn reflecting the effect of recession in the domestic market.

The proportion of doubtful loans in BCI's portfolio rose to 3.3 per cent from 2.9 per cent – but this was almost the average percentage for the Italian banking system.

Net interest income for the year remained stable, marginally increasing to L2,822bn from L2,816bn. Total assets amounted to L115,813bn at year end, against L111,577bn. Non-interest income rose 78 per cent to L1,738bn, benefiting from favourable market conditions.

The directors are proposing unchanged dividends of L200 per ordinary share and L230 for savings shares still outstanding after the conclusion on February 11 of the offer to convert savings into ordinary shares paying L250 to BCI.

Net profit for the group, to be announced in February, is expected to reflect an improved performance by BCI subsidiaries and allowing a better overall result than 1992.

WH Smith 11% up at halfway

By Neil Buckley in London

W H Smith, the retail and distribution group, yesterday announced an 11.2 per cent increase in interim pre-tax profits, but said it was still cautious about consumer spending.

Profits for the six months to November 27 increased from £40.2m to £44.7m – towards the lower end of market expectations – and the shares closed down 6½p at 530½p.

Sales in the five weeks to December 31 increased 6.2 per cent on the year before, improving to 7 per cent in the first three weeks of this month.

Monte Carlo group warns of sharp fall

By Alice Rawsthorn in Paris

Société des Bains de Mer (SBM), the Monte Carlo-based hotel and gaming group, yesterday warned that its net profits were likely to fall by 20 per cent to 25 per cent in the current financial year.

SBM, which is the largest company in Monaco and owns the famous Hôtel de Paris as well as the Monte Carlo casino, has been affected by economic recession and the strength of the French franc against other European currencies.

The group said it was just starting to detect signs of an improvement in the economic environment. However, it anticipated a reduction in turnover of between 9 per cent and 10 per cent in the year to March 31 from FFr1.75bn ($297m) in the last full financial year as well as the fall in net profits from the previous year's FFr135m.

Gaming is expected to register a decline in net profits to FFr200m from FFr250m. Hotels will suffer a fall in earnings as the occupancy level has fallen by 8 per cent to 57 per cent in the current year.

Hanson reveals results at UK builder

By Maggie Urry in London

Hanson yesterday removed one of the veils covering Beazer Homes, its UK housebuilding subsidiary, which it aims to float by the end of March.

It revealed that the builder, the fourth largest in the UK, made an operating profit of £37.5m ($56m) in the year to September 30 on sales of £276m.

Lord Hanson told the company's annual general meeting that conditions in the UK building industry were much improved. In London, Hanson shares rose ½p to 279p.

Before the meeting, the management of Beazer Homes, led by Mr Dennis Webb, managing director, made a presentation to analysts. However, after the meeting some analysts said they had been given little information and could not put a specific value on the business until the prospectus was issued. The market value is expected around £450m.

Beazer Homes was bought by Hanson as part of its £391m purchase of Beazer in December 1991, when it also took on Beazer's debts of around £1.25bn. Before the bid, Beazer had planned to float its UK and European activities, which also included property and contracting, for up to £500m.

Hanson is floating a 70 per cent stake of its US housebuilding operations, and the two deals will help reduce the group's gearing which was 86 per cent at the end of the last financial year.

Beazer Homes said at the end of 1993 it had a land bank of 16,117 plots, equivalent to 3.4 years at its current rate of building. However, Mr Webb said later that reservations were strong and it was responding to this demand.

The £37.5m profit figure for 1992-93 compared to £37.6m in the year to June 30 1992, before a £99.3m write down of assets following Hanson's acquisition of Beazer, on turnover of £251.2m. In the year to June 30 1991 operating profit was £47.8m on £313m turnover with sales of 5,006 houses.

Lex, Page 18;
Marketing, Page 8

German group's Castle in the air

Laurie Morse analyses Metallgesellschaft's links with US oil trader

Large portions of Metallgesellschaft's financial distress are being blamed on failed oil and gas hedging strategies of MG Corp, its US subsidiary. However, MG's tangled dealings with Castle Energy Corp reflect more than just a derivatives strategy gone wrong.

MG Corp's refinery contracts with the company, described by one oil expert as irrationally beneficial to Castle, remain in force.

Five years ago, Castle Energy Corp was a $5m company whose sole business was managing oil and gas partnerships. By 1989, tax law changes forced Mr Joseph Castle II, the chairman, to look for other business. At the same time, MG Corp was embarking on an ambitious expansion into oil and gas trading and merchandising.

In the poker game that is global oil trading, owning a refinery or two increases a trading company's options. The two found common ground.

In late 1989, Castle bought a mothballed refinery in Lawrenceville, Illinois.

It was a marginal property in a troubled industry and the refinery required eight months of refurbishing and large investments before it could operate. Soon MG Corp was its sole customer.

In October, 1991, MG Corp initiated the first of a series of extraordinary refining agreements with Castle. It paid Castle a fixed refining fee and promised Castle any profits it made marketing the refined products.

Castle in return agreed to indemnify any losses that MG made trading the products. Had Castle been an MG Corp subsidiary this arrangement may have been understandable.

As a separate company, the agreement was unique in the refining industry.

Castle logged $31.6m in operating losses during the four months of the agreement, all linked to paybacks to cover MG Corp trading losses.

Under a separate arrangement, if Castle needed operating funds or capital for expansion, MG Corp lent the necessary cash, and received Castle stock in exchange for the loans.

By November, 1993, Castle had a $363m revolving credit line from MG Corp, and MG Corp had 3.5m shares of Castle stock, or 49.3 per cent of ownership.

The tangled financial dealings between the two companies shed some light on why, even now, MG Corp's bankers are having difficulty sorting out its liabilities.

The story drew the attention of US securities regulators, because deals made between Castle and MG Corp during 1992 and 1993 had the effect of pumping up Castle's profits in advance of Castle's $42m public stock offering in November 1993.

The share sale came as MG Corp's liquidity problems were reaching a crisis. News of MG Corp's problems reached the creditors of its German parent one week after Castle's share offering. Nearly all of the $39.5m Castle gained from the offering was paid to MG to reduce dept, according to company filings. Senior MG people were pulling the strings at Castle.

Mr Siegfried Hodapp, formerly MG Corp's president and formerly a senior vice-president of the German parent, was made a Castle director within weeks of Castle's venture into the refining business in 1989.

As MG's investment mounted, Mr Hodapp had replaced Mr Castle as company chairman. Two other MG executives joined the Castle board. Mr Arthur Benson was chairman of MG Natural Gas Corp, and Mr Joseph Rinaldi was head of MG's US finance arm. The Castle's agreement to cover MG Corp's oil products trading losses was brief.

After four months, MG revised the agreement so the refining company could log profits. MG agreed to to pay Castle a fixed rate of $5 per barrel above the near month market price for the benchmark west Texas intermediate crude oil, unconditionally, to the year 2,000.

In the refining business, contracts to pay a fixed price over crude oil prices are standard, but the margins are generally in cents, not dollars. That $5 refining margin put Castle in clover.

Its revenues jumped 54 per cent, or $187.2m, in fiscal 1992. After losing $36.6m in the first four months of 1992, Castle earned $1.9m for the year.

MG Corp would not comment on why it granted Castle such terms. However, it could have been part of a larger strategy, because it was expanded to include two other properties the following year. Using MG Corp loans Castle bought a Texas natural gas pipeline and other gas interests from Arco for $103.7m, and just a month before its stock offering, purchased a second, smaller oil refinery in California. Castle got a better margin from MG for the output of the California refinery – a set price of $10.20 per barrel over nearby Alaska North slope crude price, guaranteed for several years.

The MG Corp contracts allowed Castle to burnish the otherwise stark business realities laid out to investors in Castle's share offering November 24. In the prospectus Castle clearly stated that it had, as of September 30, 1993, a negative net worth of $9.4m and a total debt of $335.5m.

Oerlikon-Bührle buys Degussa vacuum unit

By Ian Rodger in Zurich

Oerlikon-Bührle, the Swiss armaments, engineering and retail group, has agreed to purchase the Leybold vacuum technology businesses from Degussa of Frankfurt for DM100m ($59m).

The deal, subject to clearance by the German cartel authorities, would make Bührle, whose Balzers subsidiary has a large vacuum business, a leading supplier in this specialised field.

Vacuum systems are used for coating various products, including architectural glass, semiconductor wafers, compact disks, erasable optical disks and liquid crystal displays.

Balzers had turnover of SFr430m ($287m) last year and was profitable. Leybold, with sales of DM868m, has been in heavy loss for some time.

Mr Heinrich Fischer, Bührle's corporate development director, said the two together had a large share of the German market, but that was no reason to block the deal. Last week Bührle revealed it had placed 362,500 registered shares privately in December at market value to help finance the acquisition.

BCP posts 9% rise in profits to Es22bn

By David Wise in Lisbon

BANCO Comercial Portugues (BCP), one of Portugal's biggest retail banks, yesterday announced a 9 per cent increase in consolidated net profits in 1993 to Es22.6bn ($128m), despite the depressed economic conditions and falling financial margins.

The increase represents a 2 per cent rise in profits per share to Es205.6. BCP leads the Portuguese share market, with a market capitalisation of Es292bn at end-1993 and a bigger price rise than any other share.

Total assets grew 27 per cent to Es1,927bn. Credit extended to clients rose 28 per cent to Es807bn but remained stationary as a proportion of total assets at 41 per cent.

Cash flow rose 34 per cent to Es75bn. The contribution of subsidiary companies to the consolidated profits rose 24 per cent to Es3.9bn, 17 per cent of the total, benefiting from cross-selling and the promotion of new products in Portugal, Spain and France.

BCP more than doubled its provisions against non-performing loans to Es13.4bn.

Randfontein Estates
The Randfontein Estates Gold Mining Company Witwatersrand Limited
Registration number 01/00251/06

	Quarter ended 31.12.93	Quarter ended 30.09.93	Six months ended 31.12.93
Ore milled – tons (000)	2 037	2 056	4 093
Yield – grams per ton	4,02	3,95	3,98
Working cost			
– per ton milled	R111,33	R111,14	R111,24
– per kilogram produced	R27 701	R28 138	R27 918
	R000	R000	R000
Net profit before tax	104 256	86 407	190 663
Net profit after tax	65 041	57 220	122 261
Dividend	61 136	—	61 136
Capital expenditure	22 912	20 005	42 917

Western Areas
Western Areas Gold Mining Company Limited
Registration number 59/03209/06

	Quarter ended 31.12.93	Quarter ended 30.09.93	Six months ended 31.12.93
Ore milled – tons (000)	586	600	1 186
Yield – grams per ton	7,34	6,84	7,09
Working cost			
– per ton milled	R212,18	R201,85	R206,96
– per kilogram produced	R28 916	R29 511	R29 206
	R000	R000	R000
Net profit before tax	51 514	43 073	94 587
Net profit after tax	50 162	41 756	91 918
Dividend	44 338	—	44 338
Capital expenditure	9 239	7 505	16 744

H. J. Joel
H. J. Joel Gold Mining Company Limited
Registration number 85/01995/06

	Quarter ended 31.12.93	Quarter ended 30.09.93	Six months ended 31.12.93
Ore milled – tons (000)	149	167	316
Yield – grams per ton	5,95	6,01	5,98
Working cost			
– per ton milled	R221,59	R193,43	R206,71
– per kilogram produced	R37 265	R32 174	R34 561
	R000	R000	R000
Profit from gold	719	4 988	5 707
Capital expenditure	8 034	6 311	14 345

All figures are unaudited. Quarterly reports have been mailed to the shareholders of each company. Copies of the reports may be obtained from Johannesburg Consolidated Investment Company (London), Limited, 6 St. James's Place, London SW1A 1NP.

Johannesburg
26 January 1994

INTERNATIONAL COMPANIES AND FINANCE

Crédit National profits fall but dividend is held

By Alice Rawsthorn in Paris

Crédit National, the corporate banking group, has warned that it suffered a sharp fall in net profits during 1993 after a "particularly difficult year".

The group, now headed by Mr Jean Yves Habérer, controversial former chairman of Crédit Lyonnais, said in a statement that it planned to maintain its dividend for 1993 despite the reduction in net profits from the FFr585.9m ($98.6m) achieved in 1992.

However, a later statement that Crédit National would pay a dividend of FFr20.00 for 1993 caused confusion on the Paris stock market. The group's dividend in 1992 had been worth FFr20.00 but it had since split its shares thereby doubling the number in issue.

Crédit National's shares were temporarily suspended until it clarified the situation by issuing another statement confirming that, because of the share split, the FFr20.00 payment for 1993 was equal to that of 1992.

The group, like other French banks, was badly affected last year by the sluggish state of demand for corporate credit as companies cut back on investment due to recessionary pressures and concern about the high rate of real interest rates in France.

It was also affected by the sharp increase in the number of company failures, particularly among the small and medium-sized businesses that have borne the brunt of the French recession.

The amount of credit extended by the group fell by 20 per cent to FFr14.4bn during 1993 against FFr18bn in 1992.

However, Crédit National, which recently finalised a cross-shareholding agreement with IKB Deutsche Bank of Germany, fared relatively well in its investment activities. It also benefited from an improved performance from Dupont-Denant, its stock broking subsidiary.

Moulinex secures draft rescue package

By Alice Rawsthorn

Moulinex, the troubled French household electricals group, yesterday saw its shares rise sharply on the Paris stock market after announcing that it had agreed draft proposals for a financial rescue package.

The company's shares soared to close FFr9 better at FFr128. Moulinex was also buoyed by the announcement that it came close to break even in the nine months to December 31.

Moulinex, badly affected by economic recession and debts incurred by its 1991 acquisition of Krups, the German kitchen appliances manufacturer, fell into the red during its last financial year and has reported an interim net loss of FFr161m ($27.3m) for the six months to September 30.

It has put together a provisional rescue package after months of negotiations. The plan involves a FFr650m capital increase for Finap, the holding company that controls 40.2 per cent of Moulinex. The capital will come from a number of investors including Glen Dimplex, the Irish group behind the Morphy Richards electrical brand, and Finamex, a partnership formed to invest the money left by Mr Jean Mantelet, the Moulinex founder.

The restructuring of Finap would be followed by a FFr600m capital increase for Moulinex to reduce that company's debt. However, Mr Gilbert Torelli, managing director in charge of the rescue, cautioned that the plan was still at a provisional stage and could take several months to finalise.

Rights issue to go ahead at Sonae group

By Peter Wise in Lisbon

A bitter legal battle that for more than a year blocked a rights issue by Sonae Investimentos, the holding company for Portugal's largest privately-held industrial and distribution conglomerate, has been settled by an out-of-court agreement between minority and majority shareholders.

A minority group composed of heirs of the founder of the Sonae group secured a court injunction ordering the suspension of the Es15bn ($86m) rights issue only minutes before the subscription period was due to end on December 31, 1992.

Since then majority shareholders led by Mr Belmiro de Azevedo, president of the Sonae group, have been fighting for permission to proceed with the issue, which would raise the share capital of Sonae Investimentos from Es25bn to Es40bn.

Stock markets analysts say the capital increase is badly needed to reduce a heavy accumulated debt and help meet the cost of major investments.

The minority shareholders argued that the issue was unnecessary. But their underlying reason for opposing it was reportedly that they lacked sufficient funds to participate fully in the capital increase and feared a dilution of their holding.

Details of the agreement between the two groups of shareholders have not been revealed. But immediately following the accord, the minority group sold 4 per cent of its holding to institutional investors in the majority group for Es3bn.

The minority group will be able to use the cash raised to reconstitute their position through the capital increase. Shares in the rights issue will sell at the December 1992 price of Es1,000 each and will be available only to shareholders at that time. Shares in Sonae Investimentos were trading at Es3,350 yesterday. The date for the rights issue now depends on a decision by the Lisbon Stock Exchange Commission.

Strength of ambition fuels steel group

Shougang wants to be China's first multi-national, reports Alexander Nicoll

Shougang Corporation wants to be more than one of the biggest steel companies in a country which has a desperate need for steel to fuel an economic boom.

"Our aim is to become a multi-national, world class enterprise by the year 2000," says Mr Zhou Beifang, chairman of the group's Hong Kong holding company.

The company, which has 24 subsidiaries and affiliates in 15 countries including the US, also plans a huge increase in domestic capacity to put it among the top three steel companies in the world.

Shougang, which is entirely state-owned, has no plans to sell shares to employees or to seek listings for the parent company on stock exchanges either in China or elsewhere, according to Mr Luo Bingsheng, its president.

Nevertheless, Mr Luo and Mr Zhou have embarked on a round-the-world tour to present the group to the investment community.

Its international ambitions are led by Shougang Concord International Enterprises, one of four subsidiaries listed in Hong Kong, which last year made a $183m convertible bond issue.

The group plans to use its presence in Hong Kong as the base for further expansion into the rest of Asia as well as Europe and North America. Mr Zhou says steel markets in south-east Asia are very promising and that Shougang would like a presence there – subsidiaries may seek stock market listings in Malaysia and Singapore.

The group also plans to build steel plants outside China on a contract basis.

Shougang is unusual among Chinese state-owned companies, though not only because it makes a profit. It was one of the earliest to acquire a measure of management autonomy under the economic reforms which Mr Deng Xiaoping, China's leader, introduced in 1978.

Its independence has since increased to the extent that it is allowed to engage autonomously in investment, finance and foreign trade – it has even been able to set up a bank. Shougang is responsible directly to the State Council, China's equivalent of the cabinet, and not to the ministry of metallurgical industry, which oversees other steel producers.

The company has extraordinarily good connections. It makes liberal use of photographs of Mr Deng Xiaoping visiting its main iron and steel works just outside Beijing in May 1992. Mr Deng Zhifang, the leader's son, is on the board of Shougang Concord Grand, another Hong Kong-listed subsidiary.

In Hong Kong, the group has struck up an alliance with Mr Li Ka-shing, the tycoon whose main company, Cheung Kong, owns 12 per cent of Shougang Concord International.

Some of the group's holdings in mainland joint ventures have already been assumed by Shougang Concord International, which has been in rapid transformation since it was acquired as Tung Wing Steel in October 1992. Mr Zhou says Shougang also plans to inject a 51 per cent interest in a new rolled steel venture and "will continue to inject assets in accordance with market conditions".

Most of the group's international activities thus far have in fact been directed at boosting Shougang's position within China. In 1992 it paid $120m for an iron ore mine in Peru, which it is using to feed its steel plants at home.

Although the company's executives talk of Hong Kong as a window on the world, where "China's industrial capital joins the world's financial capital", a large part of its role in the group is to finance mainland activities. Hong Kong companies which invest in the mainland count as foreign and obtain beneficial tax treatment.

Shougang's primary goal is to become China's largest steel producer – currently it is the third largest crude steel maker and second largest manufacturer of steel products. It aims to produce 10m tonnes of crude steel this year – up from 5.7m in 1992, and to expand capacity to 20m tonnes by 2000. This increase would come through a new joint venture in Shandong province with Cheung Kong.

Shougang Corporation (Yn m)	1990	1991	1992	1993
Turnover	7,619	8,899	12,589	21,500
Total profit	2,092	2,361	3,202	4,200
Shougang Concord International (HK$m)				
Turnover	2,487	3,269	3,400	
After-tax profit	163	225	193	

Data for SCI on proforma basis as if present group structure in existence during all three years
Source: Company reports

The group's ambitions – and those of investors eager to get a piece of China's boom – face a number of uncertainties. Like all Chinese state-owned companies, Shougang will one day have to face up to the financial burden created by 280,000 employees, for whom it has to provide from cradle to grave.

More immediately, it will need to establish equilibrium in its fast-changing listed subsidiaries: a research report by Salomon Brothers says of its profit estimates for Shougang Concord International: "Given the fluid nature of the company, these numbers must be viewed as merely rough indications of trend and magnitude." Salomon sees rapid growth in earnings, though it sees as risks changes in Chinese steel import tariffs, currency fluctuations and slippage in implementation of the expansion plans.

Shougang also depends on the success of economic policy, which has produced a series of booms and busts since reforms began. If government austerity measures taken last year fail to curb inflation and speculation, Beijing could be forced to bring about a "hard landing". Mr Luo says the measures brought down steel prices last year but that they have been rising again so far in 1994.

Sunkyong takes 23% stake in Korean telephone network

By John Burton in Seoul

Sunkyong, South Korea's fifth-largest business group, has acquired a 23 per cent stake in Korea Mobile Telecom (KMT), the country's cellular telephone network, in a Won437bn ($540m) bid.

Shares in KMT were auctioned this week as part of a privatisation programme by Korea Telecom, the state-controlled telecommunications operator. Korea Telecom will retain a 20 per cent stake in KMT.

Sunkyong was the only investor whose bid was accepted from 292 applications for 44 per cent of KMT. The rest of the bids were too low and a new auction will soon be held for the remaining KMT shares. Sunkyong paid an average of Won340,00 for each share, which were trading this week on the Seoul bourse at Won327,000.

The KMT share price has grown from Won50,000 since late 1991, reflecting the large demand for cellular telephone services. The number of subscribers reached 470,000 at the end of last year.

KMT, which was established in 1984, reported net profits of Won71.9bn on sales of Won420bn last year.

Other main KMT shareholders are the Bank of Seoul, Korea Fund, and the Korea Stock Stabilisation Fund.

A second cellular telephone network will be formed by a consortium of companies next month to compete against KMT.

Sunkyong in 1992 was awarded the licence to operate the second mobile telephone network, but was then forced to relinquish the contract because of charges of nepotism involving the families of the Sunkyong chairman and then-Korean president Roh Tae.

NTT joins General Magic multi-media product alliance

By Michiyo Nakamoto in Tokyo

NTT, the Japanese telecommunications group, said yesterday it was investing in General Magic, the US company which is developing technology for multi-media products.

NTT's decision to join a string of international investors in General Magic increases the possibility that the US company's technology will become the *de facto* industry standard for portable multi-media communications. This area is expected to become one of the most promising growth industries.

Multi-media is the combination of text, sound and pictures with computing and telecommunications functions.

Apple Computer, the US computer company, AT&T and Motorola, US telecommunications companies, Matsushita of Japan and Philips of the Netherlands, invest in General Magic. The companies have formed the General Magic Alliance and are developing products and services based on General Magic's communications software.

NTT's involvement in the General Magic Alliance promises to kick-start the market for hand-held multi-media devices as the larger number of products on the market is likely to stimulate demand for them.

NTT, which is joining a foreign software alliance for the first time, would develop multi-media services based on technology licensed from General Magic, it said.

The Japanese telecommunications group hopes its tie-up with General Magic will enable it to use its technologies in standardising global communications services.

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Cost-cutting lifts DuPont earnings in fourth quarter

By Richard Waters in New York

Underlying earnings at DuPont in the final quarter of 1993 reflected the steady improvement in the US chemicals company's operating position during last year, rising to $329m from $97m the year before.

After-tax operating earnings rose by a quarter for the year as a whole, to $1.7bn.

The gains were made largely as a result of cost-cutting, said Mr Edgar Woolard, chairman, adding that the company would continue to concentrate on productivity improvements to enable its businesses to grow at a faster rate than the world economy.

Edgar Woolard: seeks growth from improved productivity

Mr Woolard pointed in particular to improvements in the group's petroleum business in the latest period, where cost-cutting on the upstream side and higher margins on refining and marketing pushed operating income up to $163m from $94m the year before.

The chemicals and other businesses also benefited from lower costs, he added, though this was partly offset by weak economic conditions in Europe.

The chemicals business recorded operating income of $76m, up from $51m a year before; fibres reported $104m, against $52m; polymers $85m, up from $26m; and diversified businesses $4m, from a loss of $47m.

After previously-announced restructuring costs and other non-recurring items, fourth quarter net income was $226m or 33 cents a share, compared with a loss of $230m or 35 cents the year before.

One-off items included an after-tax charge of $144m to reflect product liability claims, mainly related to the Benlate fungicide, offset by a gain from the sale of Remington Arms and the company's Canadian polyethylene business.

For the year as a whole, net income was $555m ($1.7bn before all one-off items), against a loss of $3.9bn (a profit of $1.3bn before items) in 1992.

● Cost-cutting also helped push earnings at chemicals group Union Carbide ahead in the final quarter, lifting net income to $41m, or 26 cents a share, from $17m, or 12 cents, the year before, when the results had benefited from a net $7m gain from one-off items.

For the year, net income was $58m ($165m before accounting changes), against a loss of $187m (a profit of $119m before accounting changes and a contribution from discontinued operations) in 1992.

Big US oil groups overcome price falls

By Richard Waters

The three biggest US oil groups – Exxon, Mobil and Chevron – all reported sharply higher refining and marketing earnings for the last three months of 1993, helping to offset the effects of the precipitous fall in world oil prices.

Together with significant cost-cutting over the past year, the rise in profits from downstream activities enabled both Exxon and Mobil to report higher operating income for the period compared with a year before, while Chevron profits eased slightly.

At Exxon, upstream exploration and production earnings fell to $743m, from $1bn the year before (before one-off items). This was balanced by higher downstream profits, which rose to $625m from $399m (before special items). Recurring profits from chemicals rose to $143m from $71m on lower costs and a shift towards higher-margin products.

Net income for the quarter rose to $1.5bn, or $1.20 a share, from $1.4bn, or $1.12, the year before. Full-year earnings at Exxon were also bolstered by $450m of cost savings, taking net income to $5.3bn on sales of $111bn compared with $4.8bn for 1992 on sales of $117bn.

Mobil said its exploration and production earnings fell by $137m during the last quarter, to $337m, while marketing and refining profits rose by $150m to $355m (excluding all special items).

Unlike other groups, Mobil failed to see an upturn in its chemicals business, which is heavily dependent on polyethylene prices, and reported operating income of $1m down from $4m.

Net income for the quarter was $349m ($602m before charges), compared with $582m a year earlier. For the year, net income was $2.1bn ($2.3bn before special items and accounting changes) compared with $862m ($1.5bn) for 1992.

At Chevron, net income for the final quarter totalled $294m ($515m before special items), compared with $1.1bn ($542m before items) the year before. Exploration and production earnings fell from $342m to $283m, while refining and marketing income climbed from $192m to $236m.

Full-year net income reached $1.3bn ($2.1bn before one-off factors), compared with $1.6bn ($1.6bn) in 1992.

Rivals target Mexican monopoly

Telmex is to face competition for the first time, writes Damian Fraser

Teléfonos de México, Mexico's monopoly telephone carrier, is about to face competition for the first time. Notoriously inefficient and hugely profitable, the company is proving an irresistible target for rivals.

On Tuesday, MCI, the US long-distance carrier, and Grupo Financiero Banamex-Accival (Banacci), Mexico's largest financial group, announced they were forming a new company with the aim of offering long-distance services in 1996. The company will be capitalised at $1bn, and build a state-of-the-art fibre-optic cable linking three cities.

MCI was confident the joint venture would be awarded a long-distance licence by the government. The new operators could provide services from August 1996, when Telmex's monopoly on long-distance service runs out.

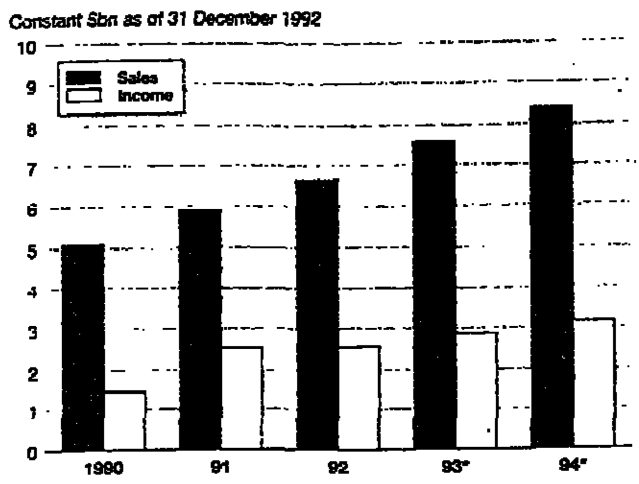
The MCI-Banacci announcement comes as Iusacell, the cellular phone company in which Bell Atlantic recently took a 42 per cent stake for $1.04bn, is preparing to provide a basic wireless local telephone service. Iusacell hopes to have 1.5m subscribers by 1996, compared with Telmex's 7.3m.

"Depending on regulation, the future for Telmex could be very difficult," says Mr Bill Deatherage, an analyst with S. G. Warburg. "Obviously, new entrants will focus on the more lucrative markets."

Telmex's main weakness is that its costs are high, and it is required to install new telephone lines at a loss, making it vulnerable to competitors that have no such obligations. Telmex charges a telephone installation fee of about $580 for homes and $1,000 for business, against an average cost of installation of $2,500.

It recoups the installation costs from inflated charges for long-distance and international calls. According to France Telecom, Telmex's partner, the company makes profits on subscribers who make more than $300 worth of telephone calls a year, the average operating cost per telephone line.

Telmex plugs into profits



Source: Company figures and Serfin estimates

MCI is likely to focus on long-distance business traffic, the most profitable segment of the long-distance market. In all, long-distance and international revenues are expected to have accounted for $4.2bn of Telmex revenues last year, or more than half the total.

Mr Austin Beutner, general partner of The Blackstone Group, which advises Iusacell, says installation costs on the Iusacell local service are "dramatically lower" than Telmex's. Assuming the same installation fees as Telmex, Iusacell can cover installation costs with far fewer than the planned 1.5m subscribers, he says.

Mr Beutner adds that operating costs for the digital wireless service will be much less than the Telmex average of $300 per subscriber. Usage (excluding long distance) will be higher for Iusacell than Telmex's since "in building any network you are going to penetrate high demographics and high-use areas first."

If so, Telmex's profit margins of nearly 40 per cent could start to fall. Local revenues are expected to have been $3.15bn last year, and were Iusacell to meet its target for subscribers, it would capture at least a fifth of that.

Telmex is betting on a friendly regulatory environment in both long-distance and local markets. Mr John Atterbury, local head of Southwestern Bell – one of Telmex's foreign partners – believes Iusacell should bear some of the cost of Telmex's obligation to install lines at a loss by paying, for example, high interconnection fees.

Telmex is also seeking to limit competition in the long distance segment. The company recently proposed a plan for long-distance interconnection which, if accepted, would "leave very little on the table for new long-distance carriers," Mr Deatherage says.

Under the plan, Telmex will establish just 10 interconnection points between local and long-distance networks, ensuring that a good part of many long-distance calls will be carried by Telmex's local network.

Telmex will require all links between a user and long-distance network to be provided by Telmex "to maintain equality among competitors". Telmex will also force subscribers to choose a carrier each time they call, rather than pre-select a long-distance carrier as in the US.

The government has still to approve the Telmex plan and will be under pressure to encourage competition. MCI and Banacci are confident Mexico would move to the sort of competitive market found in the US. Iusacell already has the regulatory go-ahead to provide a basic service, it says.

If there is open competition, Telmex would seem to be ill-prepared, providing a service well below that demanded by subscribers. Last year, the government's consumer protection agency received 114,000 complaints against Telmex, 44 per cent of all complaints received.

While Telmex is investing heavily to improve efficiency, new technology alone may not solve the problem of high costs. Telmex's foreign partners say the telephone union is a significant obstacle to greater productivity.

Telmex, complains Mr Christian Chauvin of France Telecom, "is like two companies, the management company and the union company. Negotiations can take months".

Bethlehem Steel shows continuing recovery

By Richard Waters

Shares in Bethlehem Steel jumped 5 per cent yesterday morning as the US's second biggest steelmaker reported a continuing improvement in its operating position and a further restructuring charge.

Projecting another year of strong steel demand, Mr Curtis Barnette, chairman, said the continuing economic recovery and only a small rise in imports "should result in 1994 domestic industry shipments which match or exceed 1993's estimated 87m tons.

"We expect that Bethlehem will be profitable for the year 1994," he added.

The $1 rise in its shares, to $22⅝, reversed a bout of profit-taking the day before, confirming Bethlehem as one of the best performing large company stocks this year. Bethlehem has risen from below $17 in early December as investors have sensed a revival in the fortunes of steel companies.

Yesterday, the company reported a $350m charge ($290m after tax) to cover a revised modernisation plan for its structural products business and to write down entirely a coke plant at its Sparrows Point works. The modernisation will result in the loss of 2,000 jobs, compared with 1,500 expected losses under an earlier plan.

Fourth-quarter results continued to show the improvements evident from stronger demand for steel in the US and rising steel prices. Before the restructuring charge, net income for the quarter was $47m ($19m for the year, before various one-off items), against a net loss of $56m.

Scott Paper to cut workforce by 25%

By Laurie Morse in Chicago

Scott Paper, the Philadelphia-based manufacturer of personal care paper products and printing papers, is to cut its worldwide workforce by 25 per cent, or 8,300 employees.

The company took a $381m charge on fourth-quarter earnings to cover the job cuts. More than half of the lay-offs, or about 4,500 jobs, will occur in its international operations and affiliates.

The company intends to shut down some of its older tissue manufacturing plants in the US and Europe and to restructure its coated paper business. Both businesses have been pressured by worldwide overcapacity and competitive pricing. Scott said its affiliate in Mexico would restructure.

Mr Philip Lippincott, Scott's chairman, said the workforce reductions should bring the company's employment rate into line with its lowest-cost competitors.

"These actions are part of our efforts to take control of our destiny in the slow-growth, highly-competitive and value-focused environment of the 1990s," he said.

Before the restructuring charge, Scott reported fourth-quarter earnings fell to $34.4m, or 46 cents a share, from $44.8m or 61 cents per share in the same quarter last year. Including the charge, Scott had a loss of $379.3m or $5.01 per share for the quarter.

Scott's fourth-quarter sales were $1.20bn, down from $1.28bn in the same 1992 quarter.

For the year, before special charges, Scott had income of $177.6m or $1.58 per share, down from $167.2m or $2.26 last year. With charges, Scott had a loss of $277m or $3.75 for the year. Scott's 1993 sales were $4.7bn, down from $5bn the previous year. The company's debt increased by $201m during 1993.

Scott's European operations were hit by lower sales and unfavourable foreign exchange conversions. Outside the US, the company's operating income declined 26 per cent, and sales were down 20 per cent. Within the US, Scott's operating income slid 14 per cent, while sales were flat.

Scott's operating income from its printing paper business dropped to $79.6m in 1993, from $90.8m in 1992, while its personal care and cleaning paper lines saw income slide to $306.6m, from $374.7m the previous year.

Martin Marietta rises to $118m for fourth term

By Richard Tomkins

Martin Marietta yesterday reported a surge in fourth-quarter net income to $118.7m, excluding a $17.4m charge for accounting changes, from $75.7m.

The US defence contractor saw sales rise to $3.19bn from $1.45bn. Earnings per share rose to $1.08 from 81 cents before accounting changes and 90 cents after the changes.

In April last year Martin Marietta bought General Electric's aerospace division for $3.05bn. It expanded again at the end of the year by buying agreeing to buy General Dynamics' space launch business for $208.5m.

For the full-year, net income was up to $450.3m from $345.4m before accounting changes, but slumped to $20.9m after the changes. Turnover was up to $9.44bn from $5.95bn.

Earnings per share rose to $4.25 from $3.60 before accounting changes, but turned into losses of 26 cents a share after the changes.

Marion Merrell Dow turnover tumbles 7%

By Richard Waters

Drug sales at Marion Merrell Dow dropped 7 per cent in the fourth quarter from a year ago, as the group suffered from the expiry of patents on some of its biggest-selling products.

"We faced a difficult year in 1993, with pressures on our major products as well as challenges for the entire pharmaceuticals industry," said Mr Fred Lyons, chairman and chief executive.

Sales in the fourth-quarter were $742m, down from $797m, and for the year fell by 15 per cent to $2.8bn.

Net income for the quarter was $116m, compared with $146m in the same period a year ago.

For the year, net income fell to $357m, or $1.30 a share, or $491m before restructuring charges, from $700m, or $2.51, in 1992.

Restructuring takes its toll on Borden

By Richard Tomkins in New York

Borden, the troubled US food and wallpaper group which this month put several of its businesses up for sale, yesterday announced the expected heavy losses for its fourth quarter and the full year after taking heavy charges for restructuring.

Net losses for the fourth quarter came to $635.9m, or $4.50 a share, largely because the company took a charge of $632m against earnings to cover losses stemming from business divestments, asset write-downs, the cost of reorganisation, and accounting changes. Last year it made net profits of $28.4m, or 20 cents.

For the full year, Borden reported net losses of $593.6m, or $4.21, compared with net losses of $439.6m, or $3.07.

At the beginning of January, Borden announced that it was putting its loss-making salty snacks business and its seafood, jam and jelly businesses on the market in the latest of a series of restructurings aimed at reviving profits.

Mr Ervin Shames, president and chief executive, said yesterday he believed the latest plan would improve Borden's performance and build shareholder value.

"The key is revitalising our best businesses through a combination of focus, investment in marketing, the largest cost reduction in Borden history, and a management team operating in a re-energised culture," Mr Shames said.

He predicted that quarterly earnings would strengthen this year after a marginally profitable first quarter, producing year-end earnings per share at the upper end of the 75 cents to $1 range predicted by analysts.

Strong sales boost Lotus' final period

By Louise Kehoe in San Francisco

Lotus Development, the US personal computer software company, recorded higher-than-expected fourth-quarter earnings, reflecting strong sales of its programs for electronic mail applications.

Net income for the quarter was $29.6m, or 64 cents per share, a 103 per cent increase over last year's fourth-quarter net income of $14.6m, or 35 cents. Last year the company recorded a pre-tax gain of $15m from the sale of securities offset by a $15m pre-tax restructuring charge.

Fourth-quarter revenue rose to a record $278.3m from $246m in the same period a year earlier.

For the full year, Lotus revenues grew to $981.2m from $900.1m in 1992. Before one-time items in both years, net income in 1993 rose 32 per cent to $75.4m, or $1.69, from $57.2m, or $1.33, in 1992.

Net income for 1993, including a charge of $19.9m related to the acquisition of Approach Software, was $55.5m, or $1.24. For 1992, net income, including a pre-tax gain of $49.7m from the sale of securities and a $15m pre-tax restructuring charge, was $80.4m, or $1.87.

Mr Jim Manzi, president and chief executive, said sales of Notes and cc:Mail, two communications software products, had been strong.

Lotus also expanded its share of the market for applications designed to run with Microsoft's widely used Windows software, he said.

Lotus' share price gained on news of its fourth-quarter results. The stock was trading at $54¼ at mid-day in New York yesterday, up from Tuesday's close of $52⅞.

Inquiry urges reform of Vancouver exchange

By Bernard Simon in Toronto

A commission of inquiry has urged sweeping regulatory reforms to improve the image of the scandal-plagued Vancouver stock exchange (VSE).

But several key participants, including the VSE itself, have expressed doubts whether the proposals, which include new supervisory bodies, will achieve their desired goals.

Mr James Matkin, a prominent businessman who led the inquiry, said the VSE's successes are overshadowed by "shams, swindles and market manipulations".

The report's main proposal is to transfer supervision of the VSE from the British Columbia Securities Commission, a government agency, to an independent Securities and Exchange Board, modelled on similar bodies in the US and UK.

Mr Matkin said the commission has been "too passive in its regulatory activity, and preoccupied with the prosecution and adjudication of securities abuse".

The report also recommends that responsibility for disciplining errant securities dealers be shifted from the VSE to Canada's Investment Dealers' Association, a securities industry group. Brokerage firms would be required to pass a "fitness test". A registration system and other controls would be extended to stock promoters.

The VSE said the proposed new structure would result in "a cumbersome, fractured and expensive system that shows no promise of addressing the market problems".

Mitel maintains turnround with C$7.9m

By Robert Gibbens in Montreal

The strong recovery at Mitel, the manufacturer of PBXs, integrated circuits and telephone equipment that was formerly controlled by British Telecom, continued in the third quarter.

Profit for the three months ended December 24 was C$7.9m (US$6m), or 7 cents a share, up from C$1.4m, or 1 cent, a year earlier on revenues of C$129m, up 15 per cent.

Nine-month profit was C$15.9m, or 13 cents, against a loss of C$9.3m, or 15 cents, on revenues of C$351m, ahead from C$305m.

Strength in the December quarter came from higher PBX sales in the US and rising demand for specialised circuits. Domestic business was also good, the company said.

● Imperial Oil, Canada's biggest integrated oil company, benefited from higher downstream margins and higher petrochemical sales in the fourth quarter.

However, the improvements were partly offset by lower crude oil prices and lower resource profits.

Fourth-quarter net income was C$54m, or 28 cents, up 6 per cent from C$51m, or 27 cents, a year earlier on revenues of C$2.1bn, down 7 per cent. For the year, profit was C$279m, or C$1.44, up 43 per cent from C$195m or C$1.01. Revenues were C$8.9bn, down 3 per cent.

Imperial, 70 per cent held by Exxon of the US, has cash resources of more than C$1bn and may be planning an acquisition, analysts say.

INTERNATIONAL CAPITAL MARKETS

Gilts recover their poise after post-auction dip

By Antonia Sharpe in London and Frank McGurty in New York

UK government bonds dipped immediately after the release of disappointing results to the Bank of England's £2.75bn auction of stock due 2010 yesterday. However, they recovered their poise relatively quickly in the belief that the market's upward trend was still intact.

Analysts said that prices were supported by the positive outlook for inflation in the UK and the fact that the Bank was well ahead in its funding programme.

In addition, traders said they were confident that most of yesterday's supply of gilts had gone straight into the hands of domestic institutions and were unlikely to come back into the market.

The cover on the auction was 1.21 times, which compared with market expectations of around 1½ times, while the tail was two basis points, above hopes of one basis point or less.

The March long gilt future on Liffe fell as low as 118$\frac{22}{32}$ but by the end of the day it was trading around 119$\frac{1}{32}$, down $\frac{13}{32}$ points on the day. By contrast, long-dated gilts fell around ¾ points.

■ More positive news on inflation and renewed hopes of an early cut in interest rates helped German government bonds to break their losing streak yesterday.

The March bund future on Liffe rebounded from an intraday low of 99.74 to trade around 100.21 late in the afternoon, up 0.40 on the day.

Some analysts were encouraged that the March future had bounced back above par and they were confident that it would remain above par for the foreseeable future.

GOVERNMENT BONDS

However, they noted that most of the activity was in the futures market whereas the cash market was reasonably quiet.

■ A disappointing reception to the Japanese ministry of finance's monthly auction of 10-year government bonds kept the downward pressure on Japanese government bonds yesterday.

Although the size of the auction, at Y1,000bn, came in below the market's expectations of between Y1,200bn and Y1,300bn, the coupon was set at 3.7 per cent as opposed to hopes of a coupon of 3.8 per cent.

As a result, the bid-to-cover ratio was just 1.44 (which traders said was the worst in recent history), the average yield was 3.904 per cent and the lowest successful bid was at 3.958 per cent.

The March future dropped as low as 113.44 in Tokyo trading before closing at 113.60, down more than a point on the day.

The future later bounced back to around 114.20 in London but dealers warned that the outlook for the market remained vulnerable due to persistent worries about supply and the likely re-allocation of assets from bonds to equities.

■ US bond prices were firmer yesterday morning despite cautiousness ahead of the Treasury's afternoon auction of $12bn in new five-year notes.

By midday, the benchmark 30-year government bond was $\frac{4}{32}$ higher at 98$\frac{23}{32}$, with the yield slipping to 6.33 per cent. At the short end of the yield curve, the two-year note inched $\frac{1}{32}$ forward to 99¾, to yield 4.115 per cent.

The session got off to a slow start, with a winter storm covering much of the east coast with a fresh blanket of snow.

Those traders who braved the inclement weather were content to allow prices in the long and intermediate segments of the yield curve to drift lower in very light trading. As activity picked up, however, the downward direction reversed, bringing slight gains to securities across the maturity range.

After a disappointing follow-through on Tuesday's sale of new two-year notes, the market was approaching today's auction with caution.

On a when-issued basis, the five-year bond was yielding 5.052 per cent at midday, but market participants were expecting it to back up to 5.125 per cent after the sale.

Dunedin trusts issue commercial paper

By Tracy Corrigan

Two UK investment trusts managed by Dunedin Fund Managers have issued commercial paper for the first time.

The Edinburgh Investment Trust has signed a £150m programme, while Dunedin Income Growth Investment Trust has signed a £75m programme, both arranged by NatWest Capital Markets.

Both will use the proceeds to lower borrowing costs by about 50 basis points, according to Mr David McCraw, a director of Dunedin Fund Managers.

The proceeds will refinance syndicated loans which have been fully drawn and invested in the UK gilts market.

"We believe that these programmes with their first class credit ratings are a highly efficient means of gearing," Mr McCraw said. The programmes are rated A1+ by Standard & Poors and P1 by Moody's.

● Sumitomo Bank and First Chicago have set up a programme for repackaging trade receivables of European companies and selling them to US investors, in the form of asset-backed commercial paper.

So far, $300m of US commercial paper has been issued through a conduit administered by First Chicago, but the potential size of the programme is $3bn.

Similar programmes already exist. For example, NatWest has a vehicle for securitising corporate loans, called Thames Funding, which also issues commercial paper in the US market. However, Sumitomo is believed to be the first Japanese bank to securitise European assets through the US commercial paper market. Sumitomo and First Chicago already run a similar programme in the US market backed by US receivables.

Most of the receivables are originated from investment-grade European companies or subsidiaries, many of whom are clients of Sumitomo.

Building society launches FRN

By Conner Middelmann

The Eurobond market absorbed two sterling floating-rate note issues and several US dollar convertible bonds while dealers prepared for further large bond issues in coming days.

The UK's National & Provincial Building Society issued £150m of five-year floating-rate notes paying a coupon of three-month Libor plus 10 basis points.

Most syndicate officials complained that the deal was too tightly priced, and even lead manager Goldman Sachs conceded that it was aggressive and would take a while to place.

"Considering the borrower's rating, the pricing was completely unjustified," said a trader.

He pointed out that a recent five-year FRN for the Cheltenham & Gloucester Building Society yielded 19 basis points over Libor at its re-offer price, in spite of its higher credit rating.

Cheltenham & Gloucester is rated Aa3 by Moody's compared to National & Provincial's A1 rating. A five-year floater from A1-rated Bradford & Bingley, issued some three weeks ago, currently trades at 21 basis points above Libor, another dealer pointed out.

INTERNATIONAL BONDS

The day's other sterling floater, a £100m issue for the Household Mortgage Corporation via Lehman Brothers, met a slightly warmer reception. "It was tight, but fair," said one syndicate official. The notes, which mature in March 2021 but are callable from 1997, ended around 99.95 bid, slightly above their 99.925 re-offer price.

With nearly £2bn of FRNs maturing this year and another £2bn–£3bn of floaters with 5 per cent coupon floors likely to be called if short-term interest rates fall below that level, traders are expecting heavy FRN issuance in comings months. Until more supply emerges, the redemptions are expected to generate strong demand for FRNs, especially from building societies, which are keen buyers of this paper.

Elsewhere, the Brazilian power company Electrobras launched $150m of eight-year bonds via Nomura International. The bonds will be priced on Friday at a yield spread of 350 basis points over US Treasuries.

The Mass Transit Railway Corporation issued the first Hong Kong dollar range-floaters: HK$200m of two-year notes via Morgan Stanley. The notes pay the three-month Hong Kong interbank offered rate (Hibor) plus 1.25 per cent, on the days that the Hibor fixing falls within a specified range.

The market also saw three new convertible bonds: $200m of 10-year bonds for Malaysia's United Engineers, $175m of six-year bonds for the Industrial Credit and Investment Corporation of India and $125m of 10-year bonds for the Thai borrower Tanayong.

"This is classic convertible climate: with yields so low worldwide, they offer a decent coupon and the chance to gain on the equity side while stock markets are still so buoyant," said one dealer.

The Province of Ontario is set to launch its long-awaited US$1.5bn global floating-rate notes today. They are expected to have a maturity of around 5¼ years and traders are calling for a yield spread of between six and 10 basis points above Libor. The deal will be arranged by Lehman Brothers and Merrill Lynch.

Meanwhile, China is expected to issue its $1bn 10-year global bond in the middle of next week, with Merrill Lynch as lead manager. The bonds are expected to yield between 80 and 85 basis points above the relevant US Treasury bond.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Crédit National(a)‡	250	(a)	99.77R	Feb.1997	0.15R	-	CS First Boston
Utd.Engineers(Malaysia)(b)§	200	(2-2½)#	100.00	Mar.2004	2.50	-	Morgan Stanley Intl.
ICICI(c)§#	175	(2¾-3¼)	100.00	Apr.2000	2.50	-	JP Morgan Securities
Electrobras(d)	150	(d)	(d)R	Feb.2002	1.00R	+350 (d)	Nomura International
Tanayong(e)§	125	(3½-4)	100.00	Mar.2004	2.50	-	Swiss Bank Corp.
CNCA(f)	100	zero	100.00R	Feb.1997	0.50R	-	IBJ International
Commonwealth Bk. Australia‡	100	(g)	100.00R	Feb.1995	undiscl.	-	Salomon Brothers Intl.
D-MARKS							
First Austrian Bank	150	5.75	101.35	Mar.2001	2.75	-	Commerzbank
STERLING							
National & Provincial(h)‡	150	(h)	99.98R	Feb.1999	0.15R	-	Goldman Sachs Intl.
HMC Mortgage Notes 11(i)‡	100	(i)	99.925R	Mar.2021	undiscl.	-	Lehman Brothers Intl.

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. §Convertible. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Coupon: 3-mth Libor flat. Callable on coupon dates from Feb.96 at par. b) Fixing next week. Conv prem 15-18%. Callable after 2 yrs, subject to 130% rule, at accreted value. Puttable in 5 yrs flat to Treasuries. Redemption proceeds linked to ringgit. c) Fixing approx 4/2/94. Conv prem 13-18%. Callable from 1/4/97 at par of which 1st 2 yrs are subject to 130% rule. d) Priced Friday. Spread is over interpolated yield curve. Puttable on 8/2/99 at T +350bp. e) Fixing ≤2/2/94. Conv prem 10-15%. Puttable on 1/3/99 at T + 100-200bp. Callable from 1/3/99, subject to 140% rule, at par +accrued. f) Redemption proceeds: par + 50% of gain in Hang Seng index. g) Coupon: 3-mth Libor +0.6%. Interest accrues on days 3-mth Libor falls within the following ranges: 1st 6 mths 0-3¾%, 2nd 6 mths 0-4.4%. h) Coupon: 3-mth Libor +0.1%. Callable on coupon dates from Feb.98 at par. i) Amortising issue. Coupon: 3-mth Libor +0.25%. Callable from Mar.97 at par.

More than 1bn futures contracts traded in 1993

By Tracy Corrigan

Global trading of futures and options on exchanges exceeded 1bn contracts in 1993, a 20 per cent increase on 1992 volume, according to full-year figures released yesterday by the Futures Industry Association, the US trade body for the futures industry.

However, the 13 per cent rate of growth recorded by US exchanges was substantially lower than the 34 per cent gain recorded by exchanges outside the US.

Of the top 10 exchanges in the world in 1993, only four were US-based, while four – Liffe in London, the Matif in Paris, Germany's DTB and the London Metal Exchange – were European. However, the fastest growing exchanges were BM&F in Brazil, where volume rose 49 per cent to 52m contracts, and Tiffe in Japan, where volume grew 55 per cent to 24m contracts, which were placed seventh and 10th respectively.

At the top of the table, the Chicago Board of Trade increased its lead on the Chicago Mercantile Exchange, with 179m contracts and 147m contracts respectively. In third place, Liffe's volume rose 35 per cent to just under 100m.

FIA volume figures exclude options on individual stocks.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.500	08/04	121.6100	+0.400	6.20	6.27	6.60
Belgium		7.250	04/04	105.1200	-	6.54	6.57	6.35
Canada *		7.500	12/03	107.6000	-0.050	6.44	6.37	6.57
Denmark		7.000	12/04	107.3500	-0.270	6.06	5.93	6.10
France	BTAN	8.000	05/98	110.7700	-0.010	5.12	5.05	6.04
	OAT	6.750	10/03	107.5800	+0.090	5.71	5.64	5.66
Germany		6.000	09/03	101.8500	+0.220	5.74	5.62	5.58
Italy		8.500	01/04	100.7600	-0.120	8.36†	8.36	8.47
Japan	No 119	4.800	06/99	108.5160	-0.970	2.97	2.72	2.43
	No 157	4.500	06/33	107.3700	-1.620	3.46	3.37	3.05
Netherlands		5.750	01/04	100.4400	+0.190	5.69	5.60	5.53
Spain		10.500	10/03	117.3000	-0.080	7.88	7.86	8.14
UK Gilts		9.750	01/98	114-01	-5/32	5.72	5.62	5.60
		6.750	11/04	104-02	-10/32	6.17	6.06	6.09
		9.000	10/08	123-10	-20/32	6.52	6.43	6.40
US Treasury *		5.750	08/03	100-04	-2/32	5.73	5.72	5.69
		6.250	08/23	99-25	+24/32	6.27	6.29	6.24
ECU (French Govt)		6.000	04/04	99.9800	-0.350	6.00	5.90	5.92

London closing, *New York mid-day. Yields: Local market standard.
† Gross annual yield (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	130.38	130.38	-0.04	130.52	130.24	182,320	141,235
Jun	129.90	129.94	-0.02	130.04	129.82	2,259	13,880
Sep	129.00	129.12	+0.04	129.18	129.00	809	1,088

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Feb	Calls Mar	Calls Jun	Puts Feb	Puts Mar	Puts Jun
128	-	-	-	-	0.07	0.61
129	-	1.55	-	-	0.18	0.83
130	0.41	0.80	1.15	0.04	0.45	1.20
131	0.02	0.33	0.73	-	0.96	-
132	-	0.11	0.42	-	-	-
133	-	0.03	0.21	-	-	-

Est. vol. total, Calls 21,098 Puts 59,544. Previous day's open int., Calls 307,539 Puts 359,722.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	99.78	100.14	0.33	100.24	99.74	204550	187276
Jun	99.76	100.10	0.32	100.17	99.75	2038	4380
Sep			0			0	0

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
10000	0.51	0.97	0.37	0.87
10050	0.28	0.74	0.64	1.14
10100	0.14	0.55	1.00	1.45

Est. vol. total, Calls 26427 Puts 15719. Previous day's open int., Calls 231288 Puts 164301

■ NOTIONAL MEDIUM TERM GERMAN GOVT. BOND (BOBL)(LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	102.75	102.93	0.17	102.97	102.75	1112	10105
Jun			0			0	0

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	118.62	118.56	-0.06	118.83	118.43	36833	86338
Jun	118.91	118.77	-0.07	118.95	118.81	880	3986

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
11850	1.00	2.32	0.94	2.05
11900	0.75	2.08	1.19	2.31
11950	0.56	1.85	1.50	2.58

Est. vol. total, Calls 3393 Puts 1895. Previous day's open int., Calls 47532 Puts 52874

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	106.44	106.42	+0.05	106.52	106.10	47,498	88,013
Jun	106.33	106.40	+0.15	106.45	106.32	655	8,034

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	119-15	119-02	-0-13	119-20	118-23	125663	100831
Jun	118-25	118-14	-0-13	118-29	118-14	21	674

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
119	0-56	1-33	0-52	2-05
120	0-29	1-07	1-25	2-43
121	0-13	0-51	2-09	3-23

Est. vol. total, Calls 7345 Puts 5353. Previous day's open int., Calls 95835 Puts 70294

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	121.24	121.30	-	121.34	121.14	2,145	12,898
Jun	96.50	96.40	-	96.50	96.50	10	190

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	115-20	115-17	-0-05	115-20	115-12	325,403	318,261
Jun	114-17	114-16	-0-03	114-17	114-10	3,446	19,247
Sep	113-18	113-17	-0-05	113-18	113-12	5,453	28,337

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	113.85	-	-	114.45	113.60	4465	0
Jun	112.80	-	-	113.21	112.80	115	0

* LIFFE contracts traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Jan 26	Day's change %	Tue Jan 25	Accrued interest	xd adj. ytd
1 Up to 5 years (26)	129.07	-0.06	129.14	1.38	1.23
2 5-15 years (21)	161.85	-0.31	162.34	1.68	1.48
3 Over 15 years (8)	188.59	-0.67	189.86	1.14	1.64
4 Irredeemables (6)	227.98	-1.01	230.30	2.28	0.00
5 All stocks (61)	156.50	-0.30	156.97	1.51	1.42
Index-linked					
6 Up to 5 years (2)	191.14	-0.06	191.26	1.59	0.00
7 Over 5 years (11)	192.48	-0.08	192.63	0.53	0.57
8 All stocks (13)	191.40	-0.08	191.55	0.84	0.51
Debentures and Loans					
9 Debs & Loans (68)	158.11	-0.43	158.79	2.76	0.39

	Low coupon yield Jan 26	Jan 25	Yr. ago	Medium coupon yield Jan 26	Jan 25	Yr. ago	High coupon yield Jan 26	Jan 25	Yr. ago
5 yrs	5.67	5.64	6.59	5.90	5.87	7.13	6.00	5.97	7.26
15 yrs	6.42	6.34	8.23	6.50	6.43	8.67	6.70	6.65	9.05
20 yrs	6.52	6.44	8.55	6.54	6.47	8.91	6.72	6.68	7.38
Irred.†	6.61	6.53	7.38						

Index-linked	Inflation 5% Jan 26	Jan 25	Yr. ago	Inflation 10% Jan 26	Jan 25	Yr. ago
Up to 5 yrs	2.26	2.23	2.08	1.37	1.34	1.23
Over 5 yrs	2.91	2.91	3.70	2.74	2.73	3.51

Debentures and Loans	5 year yield Jan 26	Jan 25	Yr. ago	15 year yield Jan 26	Jan 25	Yr. ago	25 year yield Jan 26	Jan 25	Yr. ago
9 Debs & Loans	7.40	7.34	8.74	7.49	7.43	9.81	7.55	7.51	10.01

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Jan 26	Jan 25	Jan 24	Jan 21	Jan 20	Yr ago	High*	Low*
Govt. Secs. (UK)	106.51	106.95	107.04	107.00	106.98	94.45	107.60	93.28
Fixed Interest	133.09	133.56	133.68	133.87	133.78	109.50	133.87	108.67

* for 1993/94. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	Jan 25	Jan 24	Jan 21	Jan 20	Jan 19
Gilt Edged bargains	113.9	100.0	102.9	126.6	145.8
5-day average	117.9	122.8	123.1	127.3	126.7

FT/ISMA INTERNATIONAL BOND SERVICE

[illegible]

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	1993/94 High	1993/94 Low
Shorts (Lives up to Five Years)						
Treas 8½pc 1994	8.48	-	100$\frac{1}{32}$xd	-	102$\frac{13}{32}$	100$\frac{1}{8}$
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

Honda said to be in talks with BAe about raising 20% holding

Rover sales above break-even

By John Griffiths

New vehicle sales by Rover Group, the British Aerospace subsidiary, rose by 5 per cent to 442,745 last year – well above break-even level.

The increase, disclosed yesterday, underpinned the forecast made in September by Mr George Simpson, the outgoing chairman, that Rover would return to profit in 1993 after two consecutive years of losses.

However, Rover denied reports that it had already confirmed it would be disclosing a profit, before interest and tax, as part of BAe's results announcement on February 23.

Disclosure of the improved performance came as insiders close to both Rover in London and Honda in Tokyo indicated that the two companies were discussing the possible raising by Honda of its 20 per cent equity stake in Rover.

This, also, has been formally dismissed as speculation by both sides. However, it is understood that discussions have been going on for some time although they are weeks, and possibly months, away from a conclusion.

"There are obvious benefits to such an arrangement", one insider commented in London last night. "It would free up capital for BAe and in the case of BAe floating off Rover a bigger Honda stake would help keep away predators."

In Tokyo a Honda executive said: "There are no details we can talk about yet . . . but the issue of our stake in Rover is something we are talking about with BAe."

While total sales to dealers were up 5 per cent at 442,000 units, retail sales by dealers rose 9 per cent to 448,000 cars.

"This performance has been achieved despite extremely difficult trading conditions throughout the world," said Mr John Towers, Rover's group managing director.

Rover's last profit of £65m before tax and interest was in 1990.

Within the sales total, the contribution of the Land Rover four-wheel-drive subsidiary leapt by 30 per cent to a record 73,527.

Total export sales rose 17 per cent to 180,256 vehicles. Sales in continental Europe rose by 8 per cent, despite the new car market as a whole falling by 15 per cent, making Rover the only sizeable manufacturer to increase sales on the Continent last year. Its sales in France, Spain and Portugal also reached record levels.

Bain Clarkson venture in Vietnam

By Richard Lapper

Bain Clarkson, the international insurance broker which is part of Inchcape, yesterday announced a new joint venture in Vietnam, becoming the first insurance broker to be licensed in the country.

The deal follows hard on the heels of the announcement earlier this month of the liberalisation of the local market, hitherto dominated by Baoviet, the state-owned insurance company.

Bain Clarkson, which already operates in 11 other countries in east Asia, is setting up a 50:50 joint venture between its Inchcape Insurance Holdings (Hong Kong) subsidiary and Baoviet. Each partner will invest $125,000 (£83,000) in the new company. Inchinbrok, which will operate initially from Hanoi and Ho Chi Minh City.

Inchinbrok will provide the first retail insurance broking service in Vietnam, focusing on arranging commercial insurance and financial services for multinationals investing in the country.

It will place business both with Baoviet and other insurance companies. It is understood that four Japanese companies – Yasuda Fire and Marine, Dowa Fire and Marine, Tokio Marine and Fire and Mitsui Marine and Fire – have been given permission to open representative offices, with Yasuda opening its office at the end of last month.

"As the first fully licensed insurance broker we will introduce competition among insurers which will benefit client companies and expand the market as more operations elect to insure," said Mr Simon Arnold, chairman.

Wm Low shares hit as sales and margins fall

By Neil Buckley

Shares in Wm Low dropped 17p to 174p yesterday as the Dundee-based grocery chain said growing price competition had pushed its like-for-like sales and gross margins down, and it was cutting 41 jobs.

Mr Philip Spicer, chief executive, said sales for the first 20 weeks of the financial year had increased by 3.1 per cent, but excluding store openings and closures sales were down 1.5 per cent. Turnover for Christmas and new year had shown a similar overall pattern.

He added that the group was "cautious" about profits for the full year, and was adopting cost-cutting programmes including compulsory redundancies at all levels.

"I've been in food retailing for 30 years, and 1993 was one of the toughest years I have known," he said.

He said the rapid expansion of Shoprite, the Isle of Man-based discount chain which operates mainly in Scotland, as well as price promotions by national superstore groups, had forced a reduction in gross margins to compete.

The industry was also hindered by very low inflation - with price deflation in some product areas.

Mr Spicer said although the company had not lost many sales directly to Shoprite, its presence in the market had had a knock-on effect.

Moreover, while Sainsbury, the UK's biggest grocer, had only two superstores in Scotland, its price campaign launched in November had forced other competitors to respond, which in turn had put pressure on Wm Low.

Mr Spicer said there was evidence of "more realism" in pricing since the new year. He added that the company was continuing to close older, smaller stores leaving it with more efficient larger superstores, and more savings would come from extending scanning into the 50 per cent of stores where it had not been introduced.

Wm Low's statement is one of the starkest pieces of evidence yet of the increasing pressures in the grocery market. Tesco, the UK's second largest grocer, said last week it was cutting back its store opening programme and its gross margins had fallen as a result of price competition.

Hobson £0.54m in the red

Hobson, which on Tuesday responded to "the significant rise" in its share price by announcing that it was "in negotiations for the acquisition of a very substantial business", yesterday revealed increased losses for the six months to September 30.

The shares fell ½p to 20½p, having risen from 17p on January 20.

The USM-quoted company which has withdrawn from its personal care business, saw losses before and after tax increase from £8,000 to £544,000 largely as a result of operating losses in the discontinued division rising from £6,000 to £506,000 on turnover down from £713,000 to £434,000.

Hobson is now left with its household products and commodities trading operations.

In its first year the former made £51,000 on turnover of £398,000 while profits for the latter fell to £12,000 (£52,000) on turnover reduced to £792,000 (£2.37m).

Losses per share emerged at 0.64p (0.02p).

Small companies lead growth

By Peggy Hollinger

Small companies returned to the buy list with a vengeance last year, significantly outperforming the FT-SE-A All-Share Index for the first time in four years, to record their highest gains since 1977.

They gave a total return of 44 per cent in 1993, almost 16 per cent higher than that achieved on the All-Share last year, according to the Hoare Govett Smaller Companies Index. The HGSCI, published yesterday, covers the bottom tenth by value of the main UK equity market – companies with capitalisations of less than £318m.

The index showed the race was won by the very smallest companies, the bottom 1,000 by value, which ended the year with total returns more than 60 per cent higher.

Property companies led the field, rising 85 per cent after a 22 per cent decline in 1992.

The attraction for smaller companies appears to have been fuelled by interest in investment trusts. Versions of the index excluding investment trusts underperformed by more than two percentage points.

Fewer companies went into receivership with just 17 companies becoming valueless against 43 last time. Some 313 more than doubled their value during the year.

See Lex

OFT talks halt TV bid clock

The battle for the future of London Weekend Television may not now be resolved until the beginning of March, writes Raymond Snoddy.

Yesterday should have seen Granada's final extension of its offer of six new shares for five LWT shares but talks were continuing with the Office of Fair Trading with the takeover clock stopped.

The OFT is exploring with all parties involved what the future shape of advertising sales houses, owned or influenced by Granada or LWT, should be.

Granada owns a 50 per cent stake in The Time Exchange which sells airtime for Granada, Scottish, Border and Ulster. LWT owns Laser which sells airtime for LWT and Yorkshire-Tyne Tees.

If the two were combined it would amount to a 40 per cent share of the market.

It may be as late as February 10 before the issue is resolved between the OFT and the Department of Trade and Industry and the takeover clock starts ticking.

Once the clock is started again LWT will have two days to put out any new information and then the final closing date would follow 21 days after that.

Hogg Group profits warning

By Richard Lapper

Shares in Hogg Group, the insurance broker, tumbled 22p to 130p yesterday after the company warned of a decline in profits for 1993.

The company estimated that pre-tax profits in the year will fall by more than 50 per cent to £6m, against £13.4m in 1992, with an unexpectedly poor performance by its US business mainly responsible.

Mr Anthony Howland-Jackson, chairman and chief executive, said the final dividend would be cut to 2.5p, reducing the total for the year from 8.15p to 5.65p.

Hogg has withdrawn from managing Lloyd's agencies and its Downs & Burke fine arts and jewellery arm, and expects profits from continuing business to fall from £10.1m to £7.3m.

Hogg Robinson, the US broking and benefits division, saw its profits decline by £2m. "New business was not sufficient to offset the effect of rate reductions in the renewable portfolio, reduced contingency commissions and lost business. The group's medical third-party administration division lost money, reflecting the depressed state of the medical insurance market. The group has formed a new alliance with Emperion, a provider of administrative services in the area, in a bid to improve efficiency.

Hogg's insurance marketing services division in the UK is also expected to see a fall in profits – by about £800,000, reflecting the impact of internal reorganisation. Profits from reinsurance and group investment are also expected to fall, by £400,000 and £1.7m respectively.

Losses at Downs & Burke amounted to £1.3m. According to Mr Howland-Jackson, the market in which the broker operated collapsed. Hogg's Lloyd's agencies, which contributed £1.6m to profits in 1992, were divested in 1992.

Happy Christmas for Next

By Catherine Milton

Next, the high street fashion retailer, added to the evidence of strong consumer spending over the Christmas season, reporting that second half sales in the year to January 31 were expected to be 18 per cent ahead of the previous year.

"At our half year results on September 25 we reported that we were 10 per cent up at that point in the second half in both Next Retail and Next Directory, compared with last year," said Mr David Jones, chief executive.

"Retail is now up to 18 per cent for the whole six months and Directory has come down a shade to 9 per cent. By implication we had a very good run up to Christmas at Next Retail."

Mr Jones said that the like-for-like increase was about 17 per cent for the second half with new space accounting for about 1 percentage point of the rise. Volumes rose about 15 per cent or 16 per cent for the second half.

The company said the estimates for the second half meant the sales rise for the full year was expected to be 17 per cent in Next Retail and 9 per cent in Next Directory.

Analysts raised their pre-tax profit forecasts for the full year from about £66m to £70m.

Danka doubled at £22m for nine months

Acquisitions helped Danka Business Systems, the office equipment supplier, which operates mainly in the US, virtually double pre-tax profits from £11.6m to £22.1m for the nine months to December 31.

Sales were £233.6m (£127.5m).

Mr Dan Doyle, chief executive, said that "the company will continue to search for strategic acquisitions to serve as regional centres in new geographic areas".

So far this year, Danka has spent more than £45m on acquisitions. Earnings in the third quarter were held back by higher tax and remained steady at 2.9p.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Bullough	fin	4.3	Apr 6	4.3	6.05	6.05
Murray Split Cap	int	2.65‡	Apr 1	2.65	-	10.6
Smith (WH) A	int	5	Apr 1	4.3	-	14.2
Sphere Inv Tst	fin	1.15‡‡	Feb 28	0.85	3.4	3.1

Dividends shown pence per share net except where otherwise stated. ‡First interim. ‡‡Fourth interim.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Prices for Trading on 27.01.94 Pool purchase price £/MWh	Final Prices for Trading on 30.12.93 Pool purchase price £/MWh	Pool selling price £/MWh
0030	17.85	18.17	18.17
0100	22.98	27.44	29.08
0130	22.98	40.00	41.64
0200	22.98	40.00	41.64
0230	22.98	36.35	37.98
0300	22.98	27.44	29.08
0330	22.98	26.01	27.65
0400	22.98	21.95	23.60
0430	17.85	21.85	23.60
0500	17.82	20.56	22.20
0530	20.61	20.24	21.88
0600	20.53	20.24	21.88
0630	20.53	20.35	21.99
0700	20.95	20.35	21.99
0730	21.92	20.24	21.88
0800	21.15	20.24	21.88
0830	21.15	20.24	21.88
0900	22.81	21.66	23.30
0930	28.47	23.15	24.79
1000	28.47	21.66	23.30
1030	28.47	23.72	25.37
1100	22.81	25.16	26.80
1130	28.47	25.16	26.80
1200	28.47	25.16	26.80
1230	22.81	25.16	26.80
1300	22.80	25.16	26.80
1330	21.92	25.16	26.80
1400	21.15	23.72	25.37
1430	21.15	23.72	25.37
1500	21.15	23.72	25.37
1530	21.15	23.72	25.37
1600	23.13	27.60	29.25
1630	26.09	25.27	26.92
1700	32.82	35.42	37.07
1730	43.63	40.00	41.64
1800	43.63	40.00	41.64
1830	30.98	28.01	29.66
1900	27.04	26.95	28.60
1930	25.79	25.68	27.32
2000	23.12	25.27	26.92
2030	21.92	24.48	26.12
2100	21.15	24.48	26.12
2130	21.15	24.48	26.12
2200	20.95	21.87	23.51
2230	21.15	21.87	23.51
2300	17.85	18.05	18.05
2330	17.78	18.03	18.03
2400	17.76	18.00	18.00

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.89/MWh becomes 1.889p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0602-403780 between 8.30am and 5.15pm Monday to Friday.
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Bullough beats expectations with £9.18m

By Paul Taylor

Bullough, the office products and refrigeration group, yesterday reported an increased full year outcome reflecting sharply improved operating profits partly offset by higher restructuring charges and net interest costs.

Pre-tax profits in the year to October 31 increased to £9.18m from a restated £5.98m in the previous year when, under FRS 3, profits were reduced by a £2.56m loss on the sale of discontinued operations.

The pre-tax line was struck after first-half restructuring costs of £4.67m (£3.32m).

The results were ahead of market expectations and the shares, which have risen sharply since the start of December when they stood at 124p, gained a further 14p to close at 186p.

Turnover slipped slightly to £271.4m (£276.9m) but operating profits jumped by 21 per cent to £15.3m (£12.7m) with all the group's divisions improving their contributions slightly.

Refrigeration and store fitting boosted turnover to £98.5m (£89.2m) but operating profits rose only slightly to £5.75m (£5.66m) reflecting increased competition and thin margins.

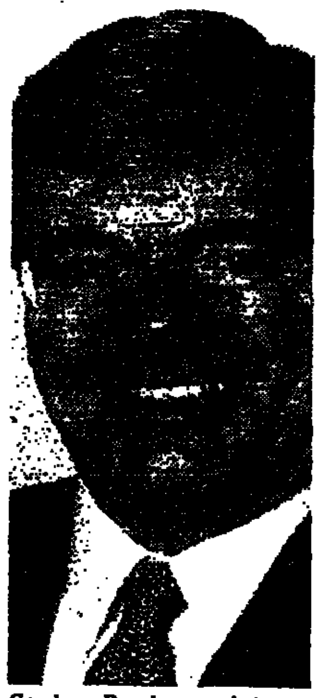
Heating division turnover was also higher at £35.1m (£31.6m) and operating profits increased to £4.09m (£3.48m), partly helped by the return to the black at the restructured Reznor business in Belgium.

The office products side managed a modest £628,000 profit following a £736,000 loss the previous year on turnover which fell to £93m (£104.4m).

Within the division, Atal's sales fell by 21 per cent and the French business underwent a substantial restructuring as a result of which it is expected to return to the black this year. In the UK, Project's sales were also lower and pressure on margins resulted in a significant drop in profits.

Net interest costs rose to £1.5m (£994,000), mainly because of currency movements and lower interest rates on the group's cash deposits.

However, net borrowings fell from £15.3m to £3.8m reflecting the group's strongly



Gordon Bond: appointment boosted market confidence

positive net cash flow.

Earnings per share fell to 3.07p (4.57p) following a substantially higher tax charge because losses at Atal could not be relieved against profits earned in the UK. The final dividend is maintained at 4.3p, making an unchanged total for the year of 6.05p.

● COMMENT

The outlook for Bullough looks a great deal brighter than it did 18 months ago and market confidence has been further boosted by the appointment of Mr Gordon Bond as chief executive. Having dealt with the French office products business the immediate task will be to arrest Project's sliding profits in the UK and to try to boost anaemic margins elsewhere. This year interest costs will be lower, tax should return to more usual levels, and any further restructuring costs should be less than 10 per cent of operating earnings. Pre-tax profits could reach £16.5m, producing earnings of about 8.8p this year, but the recent run-up in the share price means they are trading on a prospective p/e of 21.2 and have limited further potential.

Nationwide takes over at Quality Street

By James Buxton, Scottish Correspondent

Quality Street, the Glasgow-based company which owns and manages private rented housing in many parts of Britain, has brought in the Nationwide Building Society as its majority shareholder in a restructuring which it said gave it a stable basis for growth.

The Nationwide has converted £50m of lending to Quality Street into non-voting preference shares and now controls 75 per cent of the company, with the rest held mainly by Mr Paul Mugnaioni, chairman, and its management.

Quality Street will also take over the management of about 2,000 houses repossessed by the society. They will be brought into the private rented sector using business expansion scheme funds recently raised by Nationwide. Quality Street will become Nationwide's main vehicle in rented housing.

Nationwide took 25 per cent of Quality Street's equity when it was formed in 1988 and earmarked funds to finance its properties. In 1991 it sold its equity stake to Mr Mugnaioni and another director but continued to lend to it.

Quality Street manages about 3,000 properties of which it owns about 2,000 and sees itself as a "blue-chip" private landlord. But its balance sheet for the year to March 31 1993, published yesterday, showed a deficit of £45.7m mainly because of the fall in property values.

Although the company made an operating profit of £6.5m (£5m) thanks to rental income, this became a pre-tax loss of £28m (£9.4m) after a property write-down of £18m and additional interest and redemption premiums on loans from Nationwide.

As a result of the new deal, which has been under negotiation since last summer, Quality Street's indebtedness to Nationwide falls from £171m to £121m in the pro forma balance sheet, leaving a surplus of £4.2m after taking assets into account.

Nationwide's remaining loans to Quality Street will be restructured and Nationwide representatives will join Quality Street's board.

Float likely to put £75m value on Goldsborough

By Maggie Urry

Next month's flotation of Goldsborough Healthcare, the nursing homes, acute hospitals and homecare services provider, is expected to value the company at about £75m.

Goldsborough's pathfinder prospectus, issued yesterday, showed a pre-interest profit of £4.3m in the year to October 3, up from £2.5m. Turnover was £30.1m (£27.1m).

However, Goldsborough said on a pro forma basis, including acquisitions made last year for a full 12 months, operating profits from continuing operations would have been £6m on turnover of £35m.

Goldsborough has 26 care homes, with 1,238 beds, three hospitals, one of which is a joint venture, and 30 homecare branches. Mr Graham Smith, chief executive, said that differentiated the group from others as it could meet the needs of a range of clients and take advantage of developments in the healthcare sector.

Although the float is likely to raise about £60m in cash, with 65 per cent of the shares being placed with institutions and the remainder offered to the public, only £29m will go to the company, cutting debt to £7.5m, while shareholders' funds will be £51.6m.

Kunick, the amusement machines company which holds a 50 per cent stake in Goldsborough, is to sell all its shares. The proceeds will "significantly exceed" net book value of £18.3m. Kunick shares rose 1p to 16½p.

NatWest Ventures, which has a 40 per cent stake bought in 1992 for £10m, will sell part of its holding, keeping 10 per cent of the enlarged capital, while Phoenix Fund Managers' 10 per cent stake will be diluted to about 3 per cent. Management will hold about 2.5 per cent after flotation.

SG Warburg is sponsor to the issue and SG Warburg Securities is broker. Pricing is on February 17, with the offer closing on February 24. Dealings are expected to begin on March 4.

Trifast pathfinder sees £2.55m for year

By Andrew Baxter

Trifast, the Sussex-based industrial fastener group which is coming to the market next month, expects pre-tax profits of £2.55m for the year to March 31, compared with £1.98m, according to the pathfinder prospectus issued yesterday.

The company, which manufactures and distributes fasteners under the TR Fastenings trade name, is seeking a listing through a placing which will value it at between £25m and £30m.

Trifast said earlier this month that the placing was expected to raise about £15m. About two thirds of that will go to the company's two founders, Mr Mike Timms and Mr Mike Roberts who are reducing their 90 per cent stake to between 30 per cent and 50 per cent. This would leave between £3m and £4m for the company.

Trifast said that the listing would give the company access to a wider capital market. The proceeds would provide it with additional scope to finance growth as well as repaying debt to strengthen the balance sheet and help the company make appropriate acquisitions.

The announcement of the placing, which is being sponsored by James Capel, is expected on February 9, with dealings beginning on February 16.

Sun Life new single premiums top £2bn

By Alison Smith

Sun Life yesterday said that its new single premium business exceeded £2bn for the first time.

Announcing its new business figures for 1993, the life insurance group said the increase to £2.2bn represented a rise of almost 60 per cent on the 1992 figure of £1.4bn.

New regular premium business rose by 24 per cent from £86m to £107m over the year.

Mr John Reeve, managing director, welcomed the results but sought to play down expectations for 1994.

"Our new business has more than doubled over the last three years, which is well beyond the performance of the market as a whole: our immediate focus is now on consolidation at the new levels achieved," he said.

Total new premiums in 1993 rose by 55 per cent to £2.3bn, but the group said that a better indicator of performance was the 45 per cent increase in new business measured on the basis of an index of new regular premiums and one tenth of new single premiums.

The overall increases came despite falls in new business from both single and regular premium final salary and money purchase schemes.

● New premium income in 1993 at Friends Provident, the mutually-owned life and pensions group, also reflected the trend in the market towards single premium business.

The increase in its new single premium income to £518m (£392m) more than offset the fall in new annual premium income to £93m (£115m).

New rules considered for research listings

By Tim Burt

Changes are being considered to the new listing rules for scientific research companies less than two months after they came into force, the Stock Exchange said yesterday.

A working party set up by the Exchange is due to meet for the first time today amid concerns that the rules, which came into force on December 1, place too many restrictions on research groups.

Many of Britain's newly floated bio-technology companies are understood to regard the rules, first published in the revised Yellow Book last September, as over-burdensome.

Although the rules enable scientific companies to raise money without a significant trading record, a minimum time is set after flotation before fresh capital can be raised.

Restrictions on share disposals by staff and venture capital groups have also prompted complaints.

Acknowledging "problems associated with the lock-in of promoters, directors and senior employees", the Exchange said the working party would decide whether the rules were unfair.

Led by Mr Brian Richards, chairman of British Bio-technology, the working party is expected to review the requirement for independent reports on a company's viability. It would also reconsider the criteria companies must meet before they are allowed to seek a listing.

Its recommendations are not expected to be published before spring at the earliest.

IN BRIEF

CAKEBREAD ROBEY has exchanged contracts for the sale of land at Enfield for £750,000 cash. Proceeds will be used to reduce borrowings.

DANKA BUSINESS Systems, through its UK subsidiary, Danka UK, has acquired the photocopying interests of Images, which supplies a full range of equipment from Toshiba and Canon. Consideration is £370,000 cash.

ELLIOTT (B), the electrical and mechanical engineer, has acquired the business and assets, including freehold property, from the liquidator of John Hall (Oldham) for £367,250 cash. Stock to the value of £15,750 was also acquired.

GRAYSTONE has sold Road Signs-Franco for £370,000 to a joint venture company which is owned by Ringway Signs and Pathfinder Traffic Signs.

LOVELL (YJ): Applications for open offer received in respect of 210.64m new ordinary shares (67 per cent).

COMPANY NEWS: UK

In search of some sweetener

Robert Taylor on why a US union will attend Tate & Lyle's AGM

Tate & Lyle faces a public challenge from the US labour movement at the sugar and sweeteners group's annual meeting in London's Barbican centre today.

Seven US labour leaders, armed with proxies, plan to attend the AGM to publicise what they call "unfair and reckless" labour practices at AE Staley, the multinational's subsidiary in Decatur, Illinois.

Staley, accusing its employees of sabotage, locked out all 760 workers at its corn processing plant at 3am on June 27. The workers have been picketing the plant ever since.

Temporary sub-contract workers have been hired to help management continue production but union officials claim Tate has lost orders.

"The company's flat earnings report for last year is related to its failed management policies in the US," said Mr Dave Watts, local president of the United Paperworkers union, yesterday. In the year to end-September the company made pre-tax profits of £269.6m, against £237.4m.

Citing global competitive pressures for needing sweeping change, Staley wants new employment contracts that the union claims will undermine their members' living standards.

It argues that the imposed package includes a 20 per cent cut in workers' average annual pay of about $30,000 (£20,000) through the introduction of compulsory 12 hour shifts without any bonuses; an end to seniority rights in work deployment; and abolition of the plant's grievance and arbitration procedures.

Earlier this week the union delegation met Mr Neil Shaw, Tate's executive chairman, and they hope this may help resolve the conflict.

"We will not go away", says Mr Watts, "If the company is rational it should talk to us and reach an honourable, negotiated settlement. Our members are suffering real pain but so is Staley." Tate said yesterday it would not comment until today's annual meeting.

Tate has said in the past that it was not an anti-union company and the Decatur lock-out was a matter for the local management to resolve. But the company has recently suffered from bad labour relations elsewhere in the US.

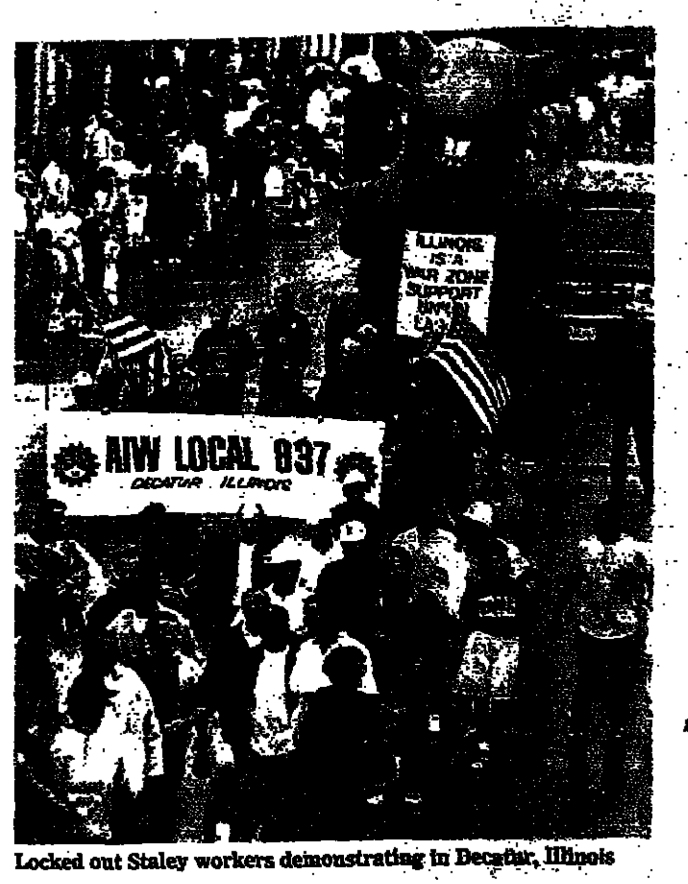
Last year it endured a five-month strike at its Domino sugar refinery in New York that the union claims cost the company £4m.

"We are confident Tate management could boost profits substantially at Staley if it would step in to settle the dispute. Failure to resolve the lock-out means lost earnings for shareholders," said Mr Mark Brooks, UPIU's special projects director, yesterday.

The Decatur plant has been unionised for half a century. "The old management was hard-nosed but at least we had agreements with them," said Mr Watts. The union leaders argue management-labour relations have deteriorated since Tate acquired the company in May 1988.

When the last collective agreement expired in September 1992 the company proposed its sweeping cost-cutting package which was rejected overwhelmingly by the workforce in a ballot.

The union stepped up pressure by boycotting local banks which had Staley executives on their boards. They were compelled to resign from them.



Locked out Staley workers demonstrating in Decatur, Illinois

The company went ahead and imposed the changes it wanted. In retaliation, the employees started a work to rule.

The conflict escalated rapidly. Three union activists were dismissed and the workforce held a safety meeting that shut down production.

On June 26 Staley production workers joined hands in solidarity with workers from the nearby Caterpillar assembly plant who are also in dispute. Early the next morning Staley locked them out.

Talks through the US Federal Mediation and Conciliation Service have proved fruitless and the company has made it clear it intends to reduce its labour force by 284.

Since last autumn the union has widened its counter-offensive against the company at local and international level, seeking to create what it calls coalitions of interest. "We want the UK unions to pressurise the company", Mr Brooks said. "What is happening in Decatur is going to affect them. They are next on the hit list."

DY Davies losses cut to £116,000

Lower exceptional charges and interest costs helped DY Davies, the USM-quoted architect, cut pre-tax losses from £484,000 to £116,000 for the six months to October 31.

Mr David Davies, chairman, said that there had been a return of confidence in the property investment market but this had yet to be transferred to the property development or construction markets.

He added that fee levels remained low as a result of competitive bidding and low demand.

Turnover was 36 per cent lower at £2.5m (£3.93m). Exceptional costs were down from £387,000 to £49,000 and interest payable was £110,000 (£157,000).

Mr Davies said that exceptional items should continue to fall as vacant office space was let.

Wildrose reveals details of Norton reverse takeover

By Tim Burt

Intrigue over the future of Norton Motors (1993) escalated yesterday when the motorcycle manufacturer's Canadian owners released details of its proposed reverse takeover in North America.

Wildrose Ventures, based in Vancouver, said an unnamed "listed public vehicle" would acquire a 51 per cent stake in Norton together with options on a further 39 per cent for an undisclosed sum.

Under the transaction, the shell company – listed on the US bulletin board in pink sheet securities – will be renamed Norton BSA.

Wildrose shareholders will receive Norton shares on a 1-for-1 basis, but the new shares will be treated as an additional dividend and will not dilute or replace their existing holdings.

Overall, the Canadian company will receive 9.25m of the 10m shares issued in the listed vehicle.

The transaction has been arranged by Mr Nelson Skalbania, the Canadian dealmaker who describes himself as a Wildrose consultant.

Mr Skalbania's daughter, Rozanda, admitted that the main investors behind Wildrose were two Vancouver families: the Aquilinis – a property group with a 10 per cent stake in Norton – and the Skalbanias themselves.

Ms Skalbania, who is running Norton's UK plant in the Midlands, said: "Wildrose's sole purpose was to do the Norton deal. The families involved in funding it were the Aquilinis and the Skalbanias."

Wildrose has been seeking a shell for Norton since June last year when it was suspended by the Alberta Stock Exchange over irregularities in the proposed takeover.

Mr Chris Agagnier, president of Wildrose, said a new listing was necessary to finance Norton's expansion.

Those expansion plans involve some bizarre ideas including Blue Thunder – a flying car which would have "vertical take-off and full hover capabilities; as simple as a motorcycle to operate; and lands safely with full power failure".

Another scheme involves a joint venture with MiG, the Russian aircraft manufacturer, to produce bicycles from recycled titanium.

There are even proposals to buy a Bulgarian ski company "to produce a line of Norton BSA skis".

Ms Skalbania, who said the schemes also depended on joint venture funding, hinted that Norton planned to produce a new motorcycle – the TT558 – in the spring.

NEWS DIGEST

Densitron shares hit by warning

Shares in Densitron International fell 5p to 35p after the electronic components group warned that a delay in some main contracts meant that full year profits were unlikely to match the previous year's £1.01m pre-tax.

The company said that sales were strong in Europe and in Asia, but declined in the US. There was a strong recovery in the microwave division which was now profitable.

Stavert Zigomala falls 6% to £36,659

Stavert Zigomala, the close company which holds quoted investments and sells furniture, upholstery, carpets and bedding, reported a 6 per cent fall in pre-tax profits from £38,813 to £36,659 for the half year to end-September.

Turnover fell by some £117,000 to £335,289 and, after an estimated tax bill of £9,165 (£9,703), attributable profits came out at £27,494 (£29,110). Earnings per share amounted to 9.303p (9.841p).

Fleming Emerging lifts net assets 50%

Net asset value of the Fleming Emerging Markets Investment Trust was 196.8p per share, fully diluted, at December 31.

The figure represented a rise of 50 per cent on the value of 131.3p at June 30. The year-on-year advance, from 121.5p, was 62 per cent.

The trust, which concentrates on capital growth, incurred a net deficit of £215,000 (profit of £53,000) for the six month period, equivalent to losses of 0.22p (earnings of 0.09p) per share.

Directors do not anticipate paying a dividend for the year.

Prestwick passes preference dividend

A lack of distributable reserves has prevented Prestwick Holdings paying the preference share dividend due on January 31, Mr Archie Coulson, executive chairman, stated at the annual meeting.

He pointed out that the group was "not making what I consider to be acceptable money and it will take some time to change that."

The shares fell 4p to 40p.

Abtrust New Dawn looks at new capital

Abtrust New Dawn Investment Trust is holding discussions with existing and potential shareholders about a possible increase in capital.

Directors are considering an issue of C shares with new warrants on conversion. Any issue would be designed so that fully diluted net asset value per share would not be reduced on conversion.

ACT subsidiary sold to its management

ACT, the Birmingham-based computer services company, has sold its Brann Direct Marketing subsidiary to members of that company's senior management for £8.15m cash.

Net assets of Brann at December 31 1992 amounted to £6.64m and profits for that year were £851,000. The purchase price included settlement of intercompany debt.

Brann was part of the BIS Group, and was acquired by ACT in July 1993.

The sale proceeds will be applied in satisfying in full the final payment of the deferred consideration for BIS.

Murray Split Cap edges ahead

Murray Split Capital Trust, managed in Glasgow by Murray Johnstone, reported a marginal increase in net assets per capital share from 214.9p to 215.5p in the three months to November 30.

Available revenue slipped to £199,000 (£206,000) and earnings per income share were 2.47p (2.58p). As forecast, the first quarter dividend is 2.65p with a maintained total of 10.6p expected for the current year.

TDG in talks to sell engineering offshoot

Transport Development Group is negotiating to sell Beck & Pollitzer Engineering to its management.

With annual sales of more than £20m, B&P Engineering is an international contractor engaged mainly in industrial removal and installation contracts. Net assets were £7.3m at December 31 1992.

Mr Michael Cox, managing director of TDG's hire division, said the company was outside TDG's main activities and a sale to management would allow the group to develop further its core activities.

Control Techniques moves eastward

Control Techniques, the Powys-based electronic drives and controls company, has opened its first "drive centre" in the former eastern bloc through a Brno-based joint venture with Vues, its Czech distributor.

CT wants to take full advantage of the surge in industrial growth caused by economic reform in both the Czech and Slovak republics. This, it said, has opened up new opportunities in industries such as metal, paper, glass and power generation.

CT's drive centres, a key element in its recent expansion, provide engineering system building and problem solving expertise close to its largest customer base, the users of small and medium-sized drive systems.

PUBLIC WORKS LOAN BOARD RATES
Effective January 25

Years	Quota loans* EIP†	A††	At maturity§
1			5
Over 1 up to 2	5⅛	5⅛	5⅝
Over 2 up to 3	5⅜	5⅜	5⅞
Over 3 up to 4	5½	5½	5¾
Over 4 up to 5	5⅝	5⅝	6
Over 5 up to 6	5⅝	5¾	6⅛
Over 6 up to 7	5¾	5¾	6¼
Over 7 up to 8	5⅞	5⅞	6½
Over 8 up to 9	6	6	6⅝
Over 9 up to 10	6⅛	6⅛	6¾
Over 10 up to 15	6¼	6⅜	6⅞
Over 15 up to 25	6¾	6⅞	6⅞
Over 25	6⅞	6⅞	6⅞

*Non-quota loans A are 1 per cent higher and non-quota loans B 2 per cent higher in each case than quota loans. †Equal instalments of principal. †† Repayment by half yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

COMMODITIES AND AGRICULTURE

Output cut hopes lift aluminium

By Kenneth Gooding, Mining Correspondent

Aluminium prices climbed strongly on the London Metal Exchange yesterday in the expectation that producers will soon start cutting world-wide output. However, some analysts were recommending caution about the outcome of last week's negotiations, at which some of the world's big aluminium producers attempted to work out a formula for global annual output cuts of 1.5m to 2m tonnes.

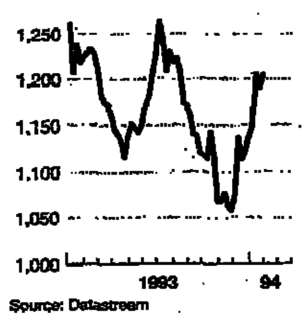
Reports from Moscow suggested the government was working on a decree calling for the Russian smelters to cut output by 500,000 tonnes a year. However, various news agency reports also said the smelter managements were not keen on the idea and were much more concerned about an argument with their electricity suppliers about rapidly rising energy costs.

Yesterday the LME the price of aluminium for delivery in three months closed at $1,235.75 a tonne, up $31.25, and in after hours trading advanced to $1,240. Mr Angus MacMillan, research manager at Billiton-Enthoven Metals, suggested that "the market might be running ahead of itself. Any improvement in prices will stall until we actually see action rather than hear about intentions. If the market is disappointed, the price will drop sharply again".

Mr Ted Arnold at the Merrill Lynch financial services group said the agreement between the big aluminium producing countries had taken too long to reach and contained too many caveats. It was unlikely that governments could find a way to enforce the arrangements, so any agreement was likely to unravel.

Aluminium

LME 3 month metal, $ per tonne



Source: Datastream

EU farm price plan aims for stability

European Farm Commissioner Rene Steichen yesterday presented farm price proposals for 1994-95 (July/June) aimed at giving farmers and traders continuity and stability, reports Reuter from Brussels.

The proposals would to a large extent implement cuts in the cereals, dairy and beef sectors decided under the reform of the common agricultural policy in May 1992.

Plans to reform the wine, fruit and vegetables and sugar sectors are due to be presented later this year.

"It would not be in anyone's interest to delay the annual price decisions by proposing piecemeal changes," Mr Steichen said.

European Union farm ministers will start to examine the Commission's proposals at their next meeting on February 21-22.

Mr Steichen told a news conference he had very little budgetary room for manoeuvre. Farm spending was likely to total Ecu36.678bn (£29bn) in 1994, overshooting the budget limit by some Ecu200m, he said.

British oil brigade leads charge into Crimea

Jill Barshay reports on a joint-venture project for deep-water drilling in the Black Sea

The British-Ukrainian Crimean Petroleum Company will drill the first deep off-shore oil well in the Black Sea this spring, following the completion last month of a preliminary geological study last month that confirmed the location of a likely oil deposit in the sea's north-western shelf.

If the well, 3,300m below the sea floor and 90km off the Crimean coastline, strikes oil the joint venturers expect an annual oil yield of 2m tonnes and additional investment of $1.5bn into the sea-shelf project.

"This will be the first deep oil well in the history of the Black Sea. No one has ever tried this before," says Mr Nikolai Ilnitsky, deputy general director of Chornomorneftegaz (which translates as Black-Sea-Oil-Gas), the state enterprise representing the Ukrainian side.

"We have a very, very exciting prospect," says Mr Richard Humphreys of J.P. Kenny Exploration, the British partner of Crimean Oil Company. "The Black Sea is one of the few areas in the world that is unexplored. . . "We have a licence for one of the most promising areas. We are looking forward to drilling the first well."

Despite the high risks, the virtually unexploited Black Sea shelf and has attracted British energy companies, like J.P. Kenny and British Gas, with their advanced North Sea oil drilling technology.

British Gas signed a co-operation agreement last month with Chornomorneftegaz to conduct geological research in the Black Sea's eastern Kerch shelf.

Ukraine is eager for British know-how because Soviet technology not equal to drilling further down than 70m, keeping off-shore exploration near the coastline. But the Black Sea's oil potential is much farther off-shore where the water depth is 80m and oil deposits are thousands of metres below the sea floor.

American, Dutch and Norwegian companies also have experience with deep sea drilling, but the British have come first to the Crimea, where they fought against the Russians 140 years ago.

"British companies are very well placed. Ukraine needs western sea technology which can go down thousands of metres. We've done this in the North Sea," said Mr Humphreys.

Ukraine, in turn, is eager for western investment to develop domestic oil sources in order to reduce their 90 per cent oil and gas dependence on neighbouring Russia and alleviate their current energy crisis.

In Crimea, where the joint venture is based, energy shortages have shut down 35 per cent of all enterprises and forced another 55 per cent to operate at half capacity. Aeroplanes at the capital's airport are grounded for lack of fuel and most scheduled flights have been cancelled.

Anxious to keep oil at home, the Ukrainian government has reserved the first option to buy J.P. Kenny's 49 per cent share of Crimean Petroleum Company's production at world market prices. If Ukraine is unable to pay, J.P. Kenny may export the oil abroad, according to the joint-venture agreement, signed in April of last year.

Despite the Ukrainian and British sides' optimistic assessments, deep off shore drilling in Crimea is as fraught with risk as it is in other areas. Huge drilling expenditures ($7m-$8m for each drilling attempt) are often for naught, as even the most thorough seismic analysis cannot reduce the two-to-one odds against striking oil in the seas.

In addition, the unsettled Ukrainian-Russian territorial dispute over Crimea could threaten current contracts, which have been negotiated with Ukrainian authorities.

Crimea was transferred from Russian to Ukrainian jurisdiction only 40 years ago. Many Crimean Russians, who make up 70 per cent of the population, would like to reunite with their ethnic kin.

Greece to offer onshore and offshore concessions

By Kerin Hope in Athens

Greece's Public Petroleum Corporation (DEP) plans to offer concessions for onshore and offshore oil exploration in western Greece later this year.

Blocks in Epirus and the Ionian Sea would be made available to international bidders after parliament passed a new law on oil exploration and exploitation, "probably in late spring", according to Mrs Teresa Fokianou-Malaveta, the corporation's chairman.

DEP's research department said seismic studies in Epirus produced encouraging results, while test drilling in the Ionian Sea had established the existence of oil-bearing levels, she added.

Under production-sharing arrangements included in the new legislation DEP would have the right to participate with a minority stake in consortia exploiting oil deposits in Greece.

Meanwhile, a new test drilling is being made by North Aegean Petroleum Corporation at the Prinos offshore field near Thassos island in the north-eastern Aegean.

The drilling is the first by NAPC, a Canadian-led consortium, since Greece and Turkey came to the brink of war in 1987 over conflicting claims to offshore oil rights in the Aegean. The dispute has prevented NAPC from exploring for oil east of Thassos.

Production at the Prinos field, situated west of Thassos in Greek coastal waters, has declined from 26,000 barrels a day in the early 1980s to about 5,000 b/d last year.

However, the introduction of gas re-injection techniques, using natural gas from the nearby South Kavalla offshore field, has lifted production to around 12,000 b/d. If successful, the $5.3m drilling project, reaching 2,000 metres below sea level, could yield up to 6,000 b/d, Mrs Fokianou-Malaveta said.

The Greek government last year signed a new six-year production agreement with NAPC, giving the consortium a more favourable tax arrangement than previously. The consortium had considered shutting down its operations because of the political obstacles to exploiting known oil and gas deposits east of Thassos. It has invested $700m in Greece since it won the Prinos concession 20 years ago.

Denison Mines of Canada controls 58 per cent of the consortium. DEP holds 15 per cent, with subsidiaries of three other international oil companies, Wintershall Greece, Hellenic Overseas Holdings and White Shields Greece, holding smaller stakes.

Chilean group faces big futures losses

By David Pilling in Santiago and Kenneth Gooding in London

Codelco, the state-owned Chilean group, yesterday launched an investigation into "serious irregularities" in its futures trading on the London Metal Exchange that could result in losses of about US$100m. This compares with estimated 1993 profits of $115m.

The deputy head of sales, Mr Juan Pable Davila, was sacked and two other senior executives, including Mr Owen Guerrini, head of sales, resigned.

Nervous tremors went through the London and New York metals markets after the announcement, by Mr Alejandro Noemi, president of Codelco, the world's biggest copper producer. "People will not want to establish substantial positions in any direction until Codelco's situation is made clearer," said Mr Angus MacMillan, research manager at Billiton-Enthoven Metals. If there was any expectation that a major player like Codelco was to liquidate contracts to buy copper, "others would sell very quickly, it would have a snowball effect and a big impact on the copper market."

However, Mr Ted Arnold, metals specialist at the Merrill Lynch financial services group, pointed out that Codelco was a big, state-owned organisation and well able to meet its obligations. "I would be amazed if Codelco liquidated its positions, so I don't imagine this having much of an impact on the copper market," he added.

Codelco's Mr Noemi said accountants Price Waterhouse would conduct an independent investigation into the potential losses. "We have projected a $100m loss, but it could be more and it could be less. A final figure will be known in about two weeks," he said.

The scandal could have profound effects on the future of Codelco, which accounts for about 20 per cent of Chile's export earnings.

Pepper production forecast to plunge this year

By Deborah Hargreaves

World pepper production is set to plunge this year with an estimated 103,000m tonnes of exports available compared with 164,000m tonnes last year according to a report by Man Producten, an Amsterdam trader.

The shortfall in output led to a steep rise in prices last year and although the market has since undergone a correction, it remains strong. Lack of investment in old and less productive pepper plantations and farmers' lack of interest in growing pepper following a period of low prices in the late 1980s has seen a substantial decline in the availability of pepper worldwide.

World pepper demand cannot be met by new crop supplies, but must be partially satisfied by selling stocks, the report states. There was a large drawdown of stocks last year and stocks are expected to fall further this year. Man Producten expects this year's demand to be close to consumption of between 145,000m tonnes and 155,000m tonnes.

Traders expect a long-term increase in pepper prices, which are at present about $2,950 a tonne for white in Rotterdam and 73 cents a pound for black in New York. The white pepper price soared to touch $4,100 a tonne in September from $1,100 a year before. Black pepper also increased from historic lows with the New York price doubling to 81 cents a pound in September.

MARKET REPORT

Gold price firmer

GOLD continued its recovery yesterday, helped by buying from a large bank. But SILVER managed only a marginal rise.

An early dip in the COPPER market quickly found support and prices ended little changed. ZINC also rallied after an initial fall, against a background of possible strike action at a Colombian mine.

Compiled from Reuter

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1218-18.5	1235.5-6.0
Previous	1186-87	1204-205
High/low		1241/1215
AM Official	1203.5-4.5	1221.5-22.0
Kerb close		1239-40
Open int.	262,135	
Total daily turnover	45,944	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1057-62	1081-85
Previous	1033-36	1056-59
High/low		1073
AM Official	1047-50	1070-75
Kerb close		1085-90
Open int.	3,029	
Total daily turnover	103	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	506.5-7.5	519-20
Previous	506.5-8.5	519-21
High/low		522/518
AM Official	506.5-7.0	519-20
Kerb close		524-25
Open int.	32,380	
Total daily turnover	7,438	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	5705-10	5769-70
Previous	5655-65	5715-25
High/low	5705	5820/5740
AM Official	5705-6	5762-63
Kerb close		5800-10
Open int.	49,669	
Total daily turnover	7,149	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5075-85	5130-35
Previous	5010-20	5060-70
High/low		5140/5075
AM Official	5080-85	5135-36
Kerb close		5120-30
Open int.	17,158	
Total daily turnover	4,405	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1004.5-5.5	1024-25
Previous	997.5-98.5	1017-17.5
High/low	998/997	1028/1008
AM Official	996.5-97	1015-15.5
Kerb close		1028-29
Open int.	98,133	
Total daily turnover	12,900	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1849-50	1872-73
Previous	1858.5-59.5	1881.5-82.5
High/low	1839.5	1885/1857
AM Official	1839-39.5	1863-63.5
Kerb close		1876-77
Open int.	257,481	
Total daily turnover	46,422	

■ LME AM Official £/$ rate: 1.4964
LME Closing £/$ rate: 1.4925

Spot:1.4940 3 mths:1.4882 6 mths:1.4803 9 mths:1.4756

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	low	Open int	Vol
Jan	86.80	+0.40	86.90	86.25	615	158
Feb	86.75	+0.35	86.60	85.50	1,222	131
Mar	86.85	+0.35	87.20	85.20	35,159	4,546
Apr	86.35	+0.25	85.20	85.20	716	9
May	86.35	+0.30	86.50	84.80	10,002	844
Jun	86.45	+0.30	85.35	85.35	850	7
Total					63,470	5,969

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	383.30-383.50	
Opening	381.00-381.40	
Morning fix	381.00	254.862
Afternoon fix	383.00	256.102
Day's High	384.50-385.00	
Day's Low	380.00-380.60	
Previous close	382.10-382.50	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....2.67 6 months 2.73
2 months ....2.70 12 months 2.82
3 months 2.70

Silver Fix	p/troy oz.	US cts equiv.
Spot	339.10	507.50
3 months	343.50	511.30
6 months	347.60	516.30
1 year	356.75	524.55

Gold Coins	$ price	£ equiv.
Krugerrand	382-385	255-258
Maple Leaf	394.00-396.50	
New Sovereign	89-92	59-62

PRECIOUS METALS

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	low	Open int	Vol.
Feb	384.6	+3.0	385.0	380.1	40,753	20,503
Mar	385.5	+3.0	381.7	381.7	70	-
Apr	386.7	+3.1	386.9	382.1	43,558	9,437
Jun	388.6	+3.1	389.0	384.2	27,623	3,054
Aug	390.6	+3.1	390.4	390.1	4,892	175
Oct	392.7	+3.1	-	-	3,425	280
Total					147,945	34,314

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	low	Open int	Vol.
Jan	387.6	+6.4	-	-	39	7
Apr	388.1	+5.9	390.0	381.5	14,202	1,445
Jul	389.5	+5.8	390.0	383.0	2,508	37
Oct	391.0	+5.8	-	-	365	6
Jan	392.4	+5.8	-	-	144	-
Total					17,260	1,496

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	low	Open int	Vol.
Mar	124.30	+0.50	126.00	123.75	2,949	106
Jun	124.20	+0.55	124.50	123.75	1,290	4
Sep	124.30	+0.90	-	-	91	3
Dec	124.30	+1.40	-	-	75	-
Total					4,405	113

■ SILVER COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	low	Open int	Vol.
Jan	512.3	+3.5	-	-	1	-
Feb	512.6	+3.3	-	-	1	-
Mar	514.0	+3.3	518.0	506.0	68,247	13,086
May	517.4	+3.3	520.5	509.5	16,483	2,145
Jul	520.5	+3.3	523.0	514.0	9,311	307
Sep	523.7	+3.3	517.0	517.0	2,859	12
Total					110,851	15,714

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Mar	15.38	+0.21	15.59	15.24	115,186	43,171
Apr	15.40	+0.21	15.54	15.32	50,714	28,580
May	15.47	+0.18	15.55	15.40	29,089	9,612
Jun	15.60	+0.17	15.70	15.56	41,212	13,459
Jul	15.70	+0.18	15.79	15.68	18,734	2,807
Aug	15.87	+0.16	15.91	15.82	13,890	2,823
Total					412,836	108,316

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Mar	14.28	+0.14	14.39	14.23	68,279	16,139
Apr	14.15	+0.15	14.21	14.09	41,879	8,701
May	14.13	+0.13	14.20	14.10	13,009	4,610
Jun	14.26	+0.14	14.33	14.25	8,375	1,233
Jul	14.38	+0.12	14.49	14.37	6,939	479
Aug	14.50	+0.08	14.57	14.49	3,713	455
Total					146,644	34,610

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Feb	51.55	+1.65	51.80	50.03	25,645	20,461
Mar	48.90	+1.07	49.30	47.83	44,936	17,216
Apr	46.50	+0.77	46.80	46.10	30,370	6,534
May	45.30	+0.52	45.50	45.05	32,382	3,058
Jun	45.10	+0.42	45.40	45.10	22,086	1,540
Jul	45.60	+0.47	45.85	45.55	15,450	379
Total					197,474	48,564

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Feb	144.50	+1.75	145.50	144.25	28,179	5,334
Mar	145.25	+1.75	145.75	144.50	20,764	3,923
Apr	144.00	+0.75	145.00	143.75	14,410	2,808
May	143.25	+1.00	143.50	142.75	9,116	924
Jun	143.25	+0.75	143.75	143.25	14,678	450
Jul	144.75	+0.50	145.50	145.00	8,441	329
Total					112,727	13,938

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Open int	Vol
Mar	2.320	+0.074	2.330	2.270	22,891	10,804
Apr	2.175	+0.041	2.190	2.165	17,487	4,266
May	2.095	+0.024	2.110	2.090	11,605	1,132
Jun	2.065	+0.016	2.080	2.055	7,233	850
Jul	2.040	+0.016	2.055	2.035	7,958	1,198
Aug	2.059	+0.011	2.065	2.050	6,935	686
Total					122,621	21,877

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Feb	44.25	+0.54	44.90	43.00	20,634	16,742
Mar	44.55	+0.56	45.00	42.21	37,263	16,902
Apr	46.95	+0.52	47.15	46.90	28,922	5,085
May	47.65	+0.45	47.80	45.38	30,412	2,699
Jun	48.00	+0.35	48.10	47.85	11,479	2,236
Jul	48.15	+0.35	48.30	48.15	2,643	327
Total					135,611	44,157

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	100.10	+0.50	100.25	100.00	1,707	192
May	101.15	+0.55	101.30	101.00	1,800	154
Jun	101.40	+0.30	101.75	-	201	64
Sep	90.35	+0.15	90.50	90.50	157	3
Nov	91.50	+0.20	91.50	91.50	762	25
Jan	93.50	+0.25	93.50	93.50	-	20
Total					4,860	458

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	372/6	-4/2	377/2	372/4	113,160	23,375
May	350/2	-4/2	353/6	350/0	41,170	7,700
Jul	337/2	-1/4	338/6	337/0	73,290	10,890
Sep	338/2	-1/2	339/2	337/6	11,655	1,585
Dec	345/4	-1/4	346/4	345/0	14,265	1,820
Jul	325/0	-	-	-	25	-
Total					253,665	45,370

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	299/4	-	300/2	299/0	559,335	115,060
May	303/6	-0/6	305/0	303/4	454,400	38,760
Jul	304/2	-1/2	305/4	304/0	398,210	31,630
Sep	285/2	-0/4	286/0	285/0	76,040	4,730
Dec	269/0	-0/4	269/6	268/4	210,980	14,890
Mar	275/0	-0/2	275/2	274/4	13,415	260
Total					1,715M	204,415

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	103.75	-0.25	-	-	715	-
May	105.25	-0.25	105.50	105.50	203	5
Sep	92.50	+0.50	-	-	60	-
Nov	94.50	-0.10	-	-	83	-
Jan	96.75	-	-	-	21	-
Total					1,041	5

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	700/2	+1/6	703/6	696/4	366,035	115,525
May	704/4	+0/2	709/0	702/4	203,165	33,375
Jul	706/0	+0/6	709/2	703/0	172,085	22,815
Aug	698/2	-	700/4	697/0	29,540	7,870
Sep	677/4	+1/0	678/0	675/4	17,450	2,075
Nov	659/4	+0/2	661/2	657/4	79,330	13,960
Total					878,350	196,990

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	29.76	-	29.99	29.58	37,870	9,523
May	29.62	-	29.81	29.48	22,005	3,487
Jul	29.24	+0.01	29.39	29.10	15,530	2,623
Aug	28.75	-0.02	28.90	28.65	5,211	585
Sep	28.10	+0.05	28.25	28.05	4,368	392
Oct	27.30	+0.10	27.35	27.24	2,896	116
Total					94,010	17,630

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	196.9	+0.8	197.1	195.9	37,187	8,126
May	197.8	+1.0	198.0	196.7	18,095	3,665
Jul	198.6	+1.0	198.9	197.6	15,737	1,871
Aug	197.0	+0.6	197.6	196.5	6,165	107
Sep	195.3	+0.6	195.7	194.8	3,354	84
Oct	193.2	+0.2	193.5	192.6	1,952	53
Total					87,417	14,354

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	135.0	-	-	-	34	-
Apr	110.8	+0.5	111.9	110.2	1,696	126
May	130.4	+1.2	131.2	131.0	726	32
Jun	130.0	-	-	-	2	-
Nov	85.0	-	-	-	-	-
Mar	105.0	-	-	-	-	-
Total					2,468	158

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	1216	-2	-	-	693	-
Feb	1193	-12	1198	1190	216	8
Mar	1215	-12	1220	1200	171	112
Apr	1243	-11	1250	1231	1,098	39
Jul	1109	-4	1110	1105	211	13
Oct	1263	-14	-	-	230	-
Total					2,710	188

	Close	Prev
BFI	1220	1228

Cotton
Liverpool- Spot and shipment sales amounted to 158 tonnes for the week ended 21 January. Against nil in the previous week. Improved demand brought moderate purchases mainly in CIS descriptions. Mali growths made some headway.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	913	-6	920	909	31,839	1,556
May	912	-4	918	910	15,551	937
Jul	919	+1	925	919	10,253	266
Sep	931	-	936	930	10,540	114
Dec	947	-1	951	945	13,894	250
Mar	961	-2	963	959	25,719	434
Total					124,881	3,587

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	1118	-5	1134	1113	23,172	3,951
May	1153	-7	1164	1150	18,239	1,310
Jul	1181	-6	1192	1179	11,220	101
Sep	1205	-8	1210	1210	7,239	190
Dec	1232	-8	1247	1238	6,591	32
Mar	1257	-8	1272	1262	7,499	6
Total					89,657	5,590

■ COCOA (ICCO) (SDR's/tonne)

Jan 25	Price	Prev. day
Daily	917.20	916.35
Jan 26		
10 day average	924.74	923.52

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	1177	+4	1176	1166	242	135
Mar	1185	+1	1187	1172	14,463	1,222
May	1191	-	1191	1177	12,709	1,712
Jul	1181	+3	1180	1170	4,332	282
Sep	1184	+3	1183	1175	2,002	27
Nov	1182	1	1181	1177	1,722	15
Total					37,682	4,098

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	74.80	+0.30	75.10	73.60	30,505	4,610
May	76.50	+0.45	76.65	75.25	14,083	1,537
Jul	77.90	+0.40	78.05	76.75	4,344	110
Sep	79.40	+0.45	79.50	78.75	3,055	27
Dec	81.05	+0.60	81.10	80.50	1,818	16
Mar	82.90	+0.55	83.00	83.00	809	10
Total					64,580	6,310

■ COFFEE (ICO) (US cents/pound)

Jan 25	Price	Prev. day
Comp. daily	69.67	69.71
15 day average	69.07	68.99

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	10.52	-0.03	10.55	10.47	1,165	115
May	11.07	-0.06	11.08	11.02	907	20
Jul	11.31	-0.05	11.31	11.30	2,922	5
Oct	11.03	-0.05	-	-	35	-
Total					5,029	140

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	289.50	-0.40	291.00	289.20	5,974	737
May	289.40	-0.30	290.50	288.60	4,134	365
Aug	293.80	-	294.50	293.00	1,848	279
Oct	282.00	+0.40	282.90	281.30	2,476	248
Dec	280.80	-0.20	-	-	87	-
Mar	281.30	-0.50	-	-	64	-
Total					14,588	1,629

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	10.31	-0.05	10.40	10.26	41,811	11,784
May	10.72	-0.07	10.78	10.70	33,031	3,508
Jul	10.77	-0.05	10.82	10.73	15,774	1,347
Oct	10.68	-0.09	10.77	10.68	15,938	502
Mar	10.76	-0.02	10.78	10.74	3,268	5
May	10.76	-0.02	-	-	111	1
Total					110,140	17,169

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	72.90	-0.88	74.23	72.80	20,690	4,110
May	73.55	-0.95	74.70	73.50	16,489	3,272
Jul	74.35	-0.88	75.40	74.20	8,343	1,561
Oct	70.59	-0.59	71.20	70.59	1,893	412
Dec	68.50	-0.60	69.98	68.45	8,335	738
Mar	69.60	-0.15	69.65	69.20	68	8
Total					55,808	10,104

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	103.10	-1.35	104.25	101.50	11,149	2,639
May	105.65	-1.60	106.50	104.30	2,631	607
Jul	107.80	-0.90	108.60	106.50	1,183	160
Sep	109.80	-0.90	108.25	108.25	812	59
Nov	111.55	-1.00	111.50	110.15	392	79
Jan	113.00	-0.95	113.00	113.00	438	32
Total					18,827	3,581

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Jan 26	Jan 25	month ago	year ago
1711.4	1703.5	1675.6	1687.2

■ CRB (Base: 4/9/56=100)

Jan 26	Jan 24	month ago	year ago
225.76	226.13	225.38	199.63

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Feb	72.925	-	73.225	72.800	24,863	6,043
Apr	75.800	-0.075	76.100	75.700	28,364	5,180
Jun	74.175	-	74.300	74.050	18,648	1,743
Aug	73.150	-	73.275	72.975	10,483	776
Oct	73.150	+0.025	73.275	73.025	6,454	317
Dec	73.900	-0.050	73.975	73.750	1,680	77
Total					91,030	14,136

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Feb	48.375	-0.175	49.075	48.300	6,194	3,721
Apr	50.175	-0.150	50.650	50.100	12,116	7,065
Jun	55.375	-	55.525	55.300	7,689	1,628
Jul	54.500	+0.025	54.625	54.400	2,886	536
Aug	52.850	+0.025	52.900	52.550	2,076	321
Oct	49.200	-0.150	49.350	49.000	1,579	133
Total					33,681	13,578

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Feb	54.850	+0.050	55.000	54.100	3,154	1,943
Mar	55.250	+0.125	55.550	54.700	2,839	1,120
May	56.475	-0.050	56.900	56.150	3,123	498
Jul	56.775	+0.100	56.850	56.475	1,835	209
Aug	54.725	-0.075	55.200	54.725	366	64
Total					11,117	3,834

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Apr	Jul	Apr	Jul
1200	69	90	30	37
1250	43	63	54	59
1300	24	43	85	87
■ COPPER (Grade A) LME	Apr	Jul	Apr	Jul
1850	71	99	46	56
1900	47	74	71	79
1950	29	53	103	108
■ COFFEE LCE	Mar	May	Mar	May
1150	49	81	14	40
1200	22	55	37	64
1250	8	37	73	96
■ COCOA LCE	Mar	May	Mar	May
900	32	54	19	42
925	20	43	32	56
950	12	34	49	72
■ BRENT CRUDE IPE	Mar	Apr	Mar	Apr
1400	49	63	15	44
1450	18	38	37	-
1500	5	20	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Mar)		+or-
Dubai	$13.42-3.48w	+0.20
Brent Blend (dated)	$14.75-4.78	+0.195
Brent Blend (Mar)	$14.30-4.32	+0.17
W.T.I. (1pm est)	$15.44-5.46w	+0.20

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$148-150	+1.5
Gas Oil	$146-148	+0.5
Heavy Fuel Oil	$69-70	
Naphtha	$131-134	+2
Jet Fuel	$162-164	+1

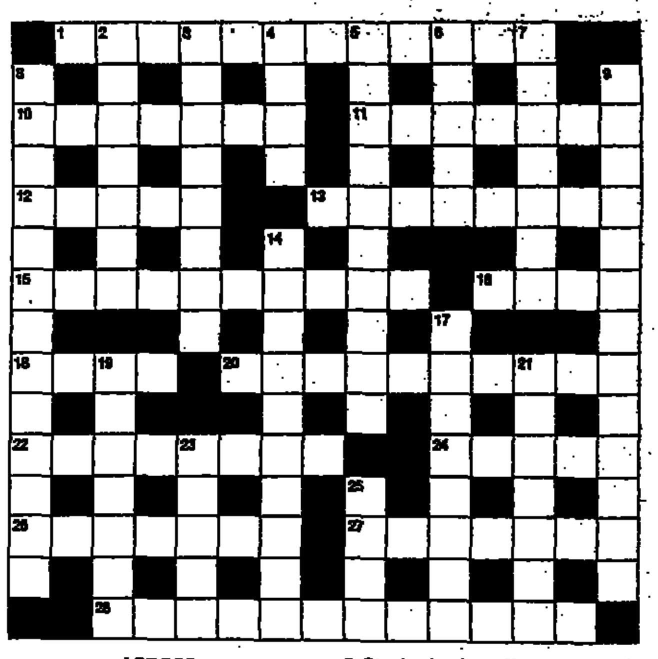
Petroleum Argus Estimates

■ OTHER		
Gold (per troy oz)♣	$383.55	+1.25
Silver (per troy oz)♣	513.5c	+2.0
Platinum (per troy oz.)	$380.00	-1.00
Palladium (per troy oz.)	$124.00	+0.25
Copper (US prod.)	91.0c	
Lead (US prod.)	35.00c	
Tin (Kuala Lumpur)	13.42r	+0.08
Tin (New York)	236.50c	+2.00
Zinc (US Prime W.)	Unq.	
Cattle (live weight)†	120.74p	-0.42*
Sheep (live weight)†♠	101.85p	+0.91*
Pigs (live weight)	66.58p	-1.08*
Lon. day sugar (raw)	$254.5	-1.0
Lon. day sugar (wte)	$292.0	+1.0
Tate & Lyle export	$281.0	-1.0
Barley (Eng. feed)	Unq.	
Maize (US No3 Yellow)	£127.00v	
Wheat (US Dark North)	£143.5	
Rubber (Mar)♥	62.00p	+0.25
Rubber (Apr)♥	62.25p	+0.25
Rubber(KL RSS No1 Feb)	223.5m	+0.5
Coconut Oil (Phil)§	$610.0x	+10.0
Palm Oil (Malay.)§	$402.5t	
Copra (Phil)§	$395.0	
Soyabeans (US)	£201.0v	+1.0
Cotton 'A' index	73.75c	+0.50
Wooltops (64s Super)	362p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Feb/Apr w Mar. z Jan/Mar. v Feb. t Feb/Mar. x Mar/Apr. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week, provisional prices.

CROSSWORD

No.8,364 Set by HIGHLANDER



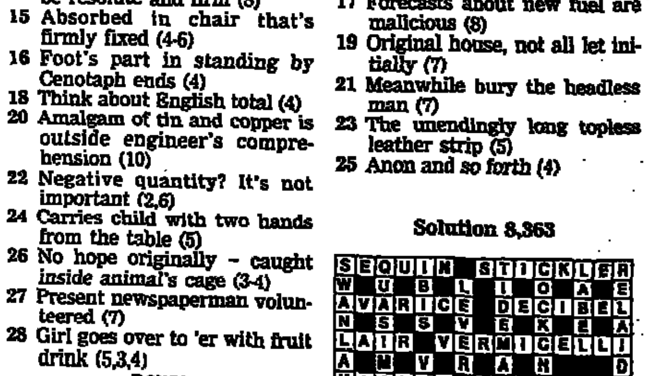
ACROSS

1 Misinterpreted brief point about teetotaller's drink (4,2,6)
10 Withdraw from area after Queen is overthrown (7)
11 Head of physics to remain in charge of synthetic material (7)
12 In bloom on the first of April perhaps (5)
13 Last mad struggle – time to be resolute and firm (8)
15 Absorbed in chair that's firmly fixed (4-6)
16 Foot's part in standing by Cenotaph ends (4)
18 Think about English total (4)
20 Amalgam of tin and copper is outside engineer's comprehension (10)
22 Negative quantity? It's not important (2,6)
24 Carries child with two hands from the table (5)
26 No hope originally – caught inside animal's cage (3-4)
27 Present newspaperman volunteered (7)
28 Girl goes over to 'er with fruit drink (5,3,4)

DOWN

2 Deep in the past perhaps (7)
3 Examine outside of every packing case (3-5)
4 Is suitable for sudden attacks (4)
5 Overtures to Iolanthe and Mikado (work by G & S) reveal haste (10)
6 Starts to tow lines to catch immature fish (5)
7 Keep third of form in and go through instruction process again (7)
8 Mercedes has rear end missing, smashed up by people on the drink (5,2,6)
9 To put an end to disorder adds on a drink (6,3,4)
14 Brave defender for Lady Chatterley's Lover? (10)
17 Forecasts about new fuel are malicious (8)
19 Original house, not all let initially (7)
21 Meanwhile bury the headless man (7)
23 The unendingly long topless leather strip (5)
25 Anon and so forth (4)

Solution 8,363



JOTTER PAD

LONDON STOCK EXCHANGE

MARKET REPORT

Shares give ground following gilt-edged auction

By Terry Byland,
UK Stock Market Editor

Nervousness in the government bond market undermined UK equities yesterday, leaving share prices to drift to lower levels after another directionless session. Selling pressure appeared fairly modest, although the latest reports from the retail sector gave little evidence of the bounce in consumer spending for which the stock market is still searching.

The market opened lower in the face of weakness in Hong Kong and New York overnight, but was then spurred briefly ahead by determined buying of the Footsie future by at least two big US houses.

The Footsie gained a net 6.3 in the first hour of official trading but this proved to be the best of the day. Traders were quick to see the bond futures weaken ahead of the auction of £2.75bn of government securities, a slightly unusual development, according to several leading traders.

Negative signals from the bond market quickly appeared following the announcement of the auction result. Equities held up fairly well, however, until early in the afternoon when share prices began to come under some selling pressure from overseas.

At worst the market was 11 points down on the Footsie scale, before a calm opening on Wall Street and a steadier trend in other European bourses helped London to rally at the close. The final reading put the FT-SE 100 Index at 3,436.1 for a net loss of 7.9 points.

The picture was much the same among the second line issues, where the FT-SE Mid 250 Index continued its fall to register a loss for the day of 11.4 at 4,079.7. Seaq volume of 829.3m shares compared with 985m in the previous session, with non-Footsie business constituting 61 per cent of the total. A slower trend this week in the market's second line stocks has contrasted with the outperformance of the Mid 250 Index previously.

Retail, or customer, business was worth £2bn on Tuesday, indicating that beneath a relatively calm surface the big institutional investors are actively reshuffling portfolios, taking profits in a market now around 1.7 per cent off the trading peak reached less than a week ago. Technical analysts suggest that some stocks may be overbought.

Uncertainty in UK government bonds is discouraging for the stock market, where the currently very high valuations on share prices owe much to the prolonged slide in bond yields. UK gilts gave investors returns of more than 20 per cent last year and some equity analysts fear that the sector may have "seen its best for this cycle", as one trader expressed it.

The London market was helped by firmness among the international stocks as sterling eased back from its recent strength; concern over the currency's effects on export sales has surfaced over the past fortnight. Oil shares looked steadier but the best features came among the global media stocks, where Reuters continued to make headway.

There was little support for the retail sector, however, after the latest round of sales reports did nothing to lift the clouds of uncertainty. There were losses for the store sector leaders as fund managers appeared to be lightening exposure to the conventional store leaders.

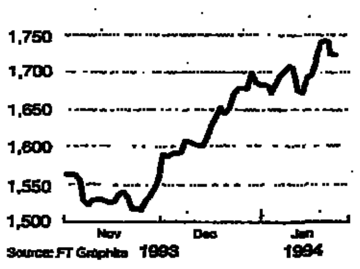
The rest of this week is expected to see London remaining somewhat on the sidelines, with share prices vulnerable to bouts of profit-taking as global markets respond to economic data from Japan and the US.

Account Dealing Dates

*First Dealings: Jan 17	Jan 31	Feb 14
Option Declarations: Jan 27	Feb 10	Feb 24
Last Dealings: Jan 28	Feb 11	Feb 25
Account Day: Feb 7	Feb 21	Mar 7

*New time dealings may take place from two business days earlier.

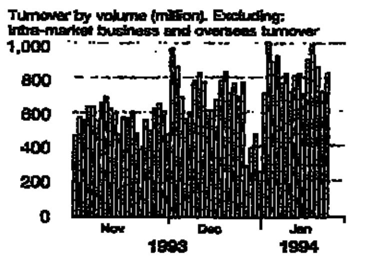
FT-SE-A All-Share Index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



■ Key Indicators

Indices and ratios

FT-SE 100	3436.1	-7.9	FT Ordinary Index	2641.2	-5.0
FT-SE Mid 250	4079.7	-11.4	FT-SE-A Non Fins p/e	22.58	(22.65)
FT-SE-A 350	1738.6	-4.2	FT-SE 100 Fut Dec	3441.0	-11.0
FT-SE-A All-Share	1724.56	-4.0	10 yr Gilt yield	6.24	(6.20)
FT-SE-A All-Share yield	3.28	(3.27)	Long gilt/equity yld ratio:	2.05	(2.04)

Best performing sectors

1	Gas Distribution	+1.0
2	Pharmaceuticals	+0.9
3	Media	+0.7
4	Electronic & Elec Eqpt	+0.6
5	Extractive Inds	+0.4

Worst performing sectors

1	Water	-1.7
2	Retailers, General	-1.0
3	Textiles & Apparel	-1.0
4	Engineering, Vehicles	-0.8
5	Banks	-0.8

Mixed retail fortunes

Further evidence of the mixed pattern of Christmas trading among the big retail stores emerged yesterday as slightly disappointing results from W.H. Smith contrasted with strong figures from Next.

Although Smith reported an increase in sales, profits came in towards the bottom of market expectations and some brokers edged down full-year forecasts. However, most took heart from the lower losses at Do It All, the home improvement chain, and positive remarks from the Smith management on trading.

The shares, marked sharply down initially on a hefty tax charge, closed at 530½p, off 6½ on the day. Turnover was a brisk 2.5m.

Next shares were also sold, but dealers attributed this to profit-taking following the stock's sparkling new year run. Most of this was caused by intense speculation of its sales increase over the Christmas period, confirmed by yesterday's trading statement. Retail sales jumped 18 per cent and Next Directory 9 per cent in the six months to the end of January. Analysts' upgrades lifted profits forecasts some 5 per cent to around £70m. The shares eased 2 to 241p.

Glaxo bounces

Internationally traded pharmaceuticals group Glaxo bounced in an uncertain market as US sellers took a back seat, prompting technical buying in London. The shares closed 13½ stronger at 668p, with turnover heavier than its average at 7.5m.

Dealers said US investors had been very heavy buyers of puts – a bearish derivatives trade which allows the investor to sell stock later at a fixed price and date. Put buying is often carried out as a hedge against possible bad news, and in this case it was President Clinton's State of the Union address on Tuesday night which had caused the nervousness.

In the event, most analysts were reassured or at least not flustered by the president's comments on health care reform. The sellers stayed away and UK dealers who had maintained short positions for some time bought back stock to square their books.

However, one international trader said: "$20 was a floor on the way down and will be a resistance on the way up." The UK closing price equated to a US price of $19¾.

Reports of a deal between Cadbury Schweppes and Cott Corporation, of Canada, in which the UK group will bottle 'own label' drinks in continental Europe undermined the shares.

Some in the market saw a conflict of interest between the two groups, arguing that Cadbury could undermine its branded products by producing cheaper generic versions for Cott. The battle between the two product types has been a prominent feature in the food industry, particularly over the past year.

However, Cadbury supporters argued that the move solved the company's spare capacity problem. Cadbury shares retreated 5 to 526p.

Food retailers were again under pressure as William Low unveiled depressed margins and cautioned over future trading. The shares dropped 17 to 174p. Argyll slipped 7 to 274p, Tesco 2 to 230p and Kwik Save 8 to 621p. J. Sainsbury rallied to close 4 ahead at 447p.

A profits warning from Hogg Group, the insurance broker, saw the company's shares plunge 22 to a year's low of 130p. There was exceptionally heavy trading in other broking stocks, however, with much of it transacted at prices below ruling market levels, according to the Seaq ticker. Sedgwick settled 3 off at 196p and Willis Corroon 6 lower at 229p on turnovers of 3.6m and 3.2m.

The bid story in the composite insurance sector refused to lie down, with the market still excited by the prospect that UAP, Europe's second biggest insurance group, might move against one of the quoted UK companies.

Independent Insurance rose to 314p before closing 3 ahead at 311p. And there were also persistent stories that UAP may have targeted Royal Insurance's telephone insurance division, The Insurance Service, the UK market's second biggest direct insurance group after Royal Bank of Scotland's Direct Line subsidiary. Dealers noted further underlying support for Royal, which ended a net 2 off at 327p.

Sun Life's good new business figures drove Transatlantic shares up 16 to 436p.

Banks took a back seat and reacted to widespread profit-taking. Smith New Court was seen as a big seller of TSB, which retreated 4 to 280p on 3.2m traded. Abbey National options were again heavily dealt, the underlying shares closing 5 up at 507p.

Cray Electronics advanced 6 to 192p after an S.G. Warburg recommendation. Warburg said the company's 1994 and 1995 price/earnings relatives offered prospects for at least 35 to 40 per cent outperformance in the next 18 to 24 months.

The sale of the Brann Direct Marketing subsidiary to a management buy-out for £8.15m, plus a buy note from BZW, drove ACT shares up 3 to 179p.

GEC was one of the market's most actively traded stocks, moving up a further 3½ to 340p on turnover of 10m, still boosted by Hoare Govett's buy note. Credit Lyonnais Laing and BZW were also recommending the stock.

Pearson rose 9 to 664p on recommendations from Lehman Brothers and Henderson Crosthwaite. Lehman raised its 1994 profits forecast by £20m to £270m and targeted a share price of 800p within 12 months.

Public relations group Shandwick improved 8, or 22 per cent, to 43¼p as S.G. Warburg recommended the stock up to 55p following figures on Tuesday.

Mirror Group Newspapers receded 4½ to 195¼p, with the market deciding it was going to lose the battle for control of The Independent, the UK newspaper. Mr Tony O' Reilly's Irish Independent is tipped by some to emerge the winner, and United Newspapers, which shares a printing arrangement with the Irish group, gained 7 at 687p on hopes of extra printing contracts.

Engineering group Bullough forged ahead 14 to 186p after improved figures. BBA Group fell 9 to 207p after James Capel indicated that it preferred other stocks in the engineering sector. The broker still has the stock on its hold list. Volume rose to 5.3m.

British Steel brushed aside a profits downgrading from S.G. Warburg and closed a penny firmer at 132½p. Turnover remained high, reaching 29m shares.

MARKET REPORTERS:
Christopher Price,
Peter John, Joel Kibazo,
Steve Thompson.

■ Other statistics, Page 23

NEW HIGHS AND LOWS FOR 1993/94

NEW HIGHS (194).

GILTS (1) Conversion 3½pc '61 Aft., BANKS (3) ANZ, Nat. Australia Bank, Ottomane Bank, BREWERIES (2) Fuller S.T.A., Regent Inns, BUILDING & CNSTRN (8) Allen, Ashtead, Avonside, Kajima, McCarthy & Stone, Shorco Group, BLDG MATLS & MCHTS (3) Helton, Marshalls 6½pc Cnv Pf, Meyer Intl., DISTRIBUTORS (3) Dagenham Motors, Heritage, Polar, DIVERSIFIED INDLS (8) Antofagasta, Armour Trust, Lonrho, Pacific Dunlop, Williams Hldg 5½pc Cv. Prf., ELECTRICITY (7) East Midlands, London, Manweb, Northern, Seeboard, South Wales, South Western, ELECTRNC & ELECT EQUIP (10) Abacus, Cray Elctronic, Danka Bus. Systems, Farey, Fujitsu, Industrial Control Servs, Kenwood Appliances, Microvitec, Pelon, Whitecroft, ENGINEERING (18) ENG. VEHICLES (1) Avon Rubber, EXTRACTIVE INDS (5) Niugini Mining, Samson Exploration, Wankie Colliery, Westralian Res., Willoughbys' Cons Ptd., FOOD MANUF (2) Assoc. Brit. Foods, Nestle', HEALTH CARE (2) Biotrace Intl, Court Cavendish, INSURANCE (4) Bradstock, Fenchurch, Independent Insce, Nelson Hurst, INVESTMENT TRUSTS (37) INVESTMENT COMPANIES (14) LEISURE & HOTELS (7) Castle Comms, G.R., Hornby, Kunick, Parkdean Leisure, PizzaExpress, Stakis, LIFE ASSURANCE (2) Transatlantic Hldgs, Do. B 6pc Cv Pf, MEDIA (16) MERCHANT BANKS (1) Warburg (S.G.), OIL, INTEGRATED (1) Petrofina, OTHER FINANCIAL (12) OTHER SERVS & BUSNS (2) Filofax, Rodime, PHARMACEUTICALS (1) Elan, PRTNG, PAPER & PACKG (2) NMC 7¾pc Acc. Rd. Pf, Portals, PROPERTY (10) Allied Lon. 5¾pc Cv. Rd. Pf, Anglo St. James, Chesterfield, Do. 5¼pc Cv Cm Pf, City Site Ests, Etonbrook, Ewart, Gt. Portland, Highcroft Inv. Trust, Warnford Inv., RETAILERS, GENERAL (2) Amotts, Austin Reed, SUPPORT SERVS (4) MITIE, Mleys, Page (M), Select Appointments, TELECOMMUNICATIONS (1) Security Services, TEXTILES & APPAREL (5) Alexandra Workwear, Beckman (A), Forminster, Lamont, Parkland, TRANSPORT (5) Bergesen 'A', Fisher (J), Forth Ports, Mayne Nickless, National Express.

NEW LOWS (8).

GILTS (3) Exchequer 12 1/2 pc 1994, Treasury 10pc Ln. 1994, Treasury 14 1/2 pc 1994, DISTRIBUTORS (1) Intl Food Machinery, ENGINEERING (1) Beauford, INSURANCE (2) Aon, Hogg, OTHER FINANCIAL (1) Berry, Birch & Noble, SUPPORT SERVS (1) Penna.

EQUITY FUTURES AND OPTIONS TRADING

A mildly disappointing UK gilts auction and weakness in the bund futures gave traders a further opportunity for profit-taking in Footsie futures, *writes Joel Kibazo.*

Early weakness after the March futures contract on the FT-SE 100 Index opened at 3,444 gave way to a modest advance as independent traders turned sporadic buyers.

However, the outcome of the mid-morning UK bond auction covered just 1.21 times proved disappointing and sellers of March emerged, driving the contract lower. The consequent weakness in UK gilts and in the German bunds proved further reasons for selling and the contract fell to a 7-point discount to cash early in the afternoon.

The day's low was 3,430, but bargain hunting as Wall Street improved in early trading helped March recover some of the earlier loss. It finished at 3,439, down 9 from its previous close and at a 4-point discount to its fair value premium to cash of about 7 points. Volume improved to 13,836 lots.

The expiry of the January stock options brought strong activity to the traded options sector. Turnover rose to 50,704 contracts, though trading in the FT-SE 100 option was little changed and volume closed at 13,682 lots. Some 3,153 contracts were dealt in the Euro FT-SE 100 option.

British Steel, the subject of January expiry, was the most actively traded stock option with a day's total of 6,768 lots. It was followed by British Gas at 2,624 and Abbey National, in which Kleinwort Benson was said to have carried out a big trade in the June calls.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	3444.0	3441.0	-11.0	3460.0	3430.0	16245	67323
Jun	-	3450.5	-11.0	-	-	0	7799
Sep	-	3473.0	-11.0	-	-	0	300

Contract traded on APT. Open interest figures are for previous day.

■ FT-SE 100 INDEX OPTION (LIFFE) (*3436) £10 per full index point

	3250		3300		3350		3400		3450		3500		3550		3600	
	C	P	C	P	C	P	C	P	C	P	C	P	C	P	C	P
Feb	199½	8	154½	14	112½	22	77½	36½	48	58½	28	89½	15	131	8	176½
Mar	212	28½	171	32½	134½	45½	102	63	73½	85	52½	114	35	148	22	186
Apr	224	34	187	46½	149½	60	120½	80½	91½	102	71	130	59½	161	38½	197½
Jun	[illegible]	40	206	60½	172	77	141½	96½	112½	117	91	117	78½	175½	54½	210½
[illegible]			222	71			158	106			105½	154			66	215

[illegible] 5,663

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3275		3325		3375		3425		3475		3525		3575		3625	
	C	P	C	P	C	P	C	P	C	P	C	P	C	P	C	P
Feb	[illegible]	9½	134	16½	94½	28½	61½	45½	37	70	20½	104	11	144	5	187½
Mar	[illegible]	27	152	37½	117	52	87	71½	62	96	42½	126½	28	161½	17½	200½
Apr			170	54			108½	91			64	145½			34½	215
Jun†			203½	75½			144½	114½			96½	164			61	226½
Sep†			241½	99			182½	136½			134	184½			95½	243½

Calls [illegible] Puts 1,064 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

TRADING VOLUME

■ Major Stocks yesterday

	Vol. 000s	Closing price	Day's change
ASDA Group†	11,000	62½	+½
Abbey National†	7,200	506	+4
Albert Fisher	99	72	+2
Allied-Lyons†	1,800	652	+2
Anglian Water†	3,600	558	-15
Argos	165	369	-7
Argyll Group†	5,200	274	-7
Arjo Wiggins†	1,500	277	
Assoc. Brit. Foods†	933	584	+7
Assoc. Brit. Ports	228	585	-1
BAA†	1,500	1024	+6
BAT Inds.†	8,300	519	-2
BET	1,800	153½	-½
BICC	3,300	484	-2
BOC†	1,100	691	-5
BP†	10,000	369	+½
BPB Inds.	366	352	
BT†	8,300	457½	-½
BT (P/Paid)	5,600	200	+2
BTR†	10,000	356	+1
Bank of Scotland†	1,600	241	-2
Barclays†	3,400	625	-4
Bass†	2,000	579	
Blue Circle†	3,400	379	-7
Booker	70	454	-1
Boots†	1,600	582	-1
Bowater†	1,900	503	-5
Brit. Aerospace†	2,000	436	-3
British Airways†	9,100	471	-6
British Gas†	10,000	345	+3
British Land	314	440	-5
British Steel†	32,000	132½	+1
Bunzl	1,500	764	-3
Burmah Castrol†	246	841	
Burton	7,000	67½	-1
Cable & Wire†	5,100	524	-5
Cadbury Schweppes†	2,500	526	-5
Calor Group	295	361	-2
Caradon†	1,300	429	-1
Carlton Comms.†	1,100	1001	-8
Coats Viyella†	13	275	-6
Comm. Union†	1,500	682	-10
Cookson	359	253	-2
Courtaulds†	1,400	510	-8
Dalgety	337	525	-3
De La Rue	363	947	-1
Dixons	2,900	221	-1
Eastern Elect.	928	685	-2
East Midland Elec.	629	682	+3
Eng China Clays	474	518	+5
Enterprise Oil†	671	451	-2
Eurotunnel Units	157	615	
FKI	2,700	204	+½
Fisons	2,500	140	
Foreign & Col. I.T.	462	297	+½
Forte†	1,100	265	
Gen. Accident†	259	729	-9
General Elect.†	10,000	340	+3½
Glaxo†	7,700	668	+13½
Glynwed	82	385	-1
Granada†	856	569	-9
Grand Met.†	3,500	485	-4
GUS†	1,400	615	-6
GRE†	2,000	235	-2
GKN	1,100	585	-7
Guinness†	4,000	524½	+1½
HSBC (75p shs)†	4,100	943	-11
Hammerson	686	405	-1
Hanson†	10,000	279	+½
Harrisons Crosfield	1,100	217	+2
Hays	278	305	-4
Hillsdown	134	183	
IMI	74	357	
ICI†	1,600	774	-8
Inchcape†	779	592	-6
Johnson Matthey	77	575	-3
Kingfisher†	1,800	653	-10
Kwik Save	654	621	-8
Ladbroke†	3,100	202½	+1½
Land Securities†	2,100	735	-10
Laporte	120	820	-1
Legal & General†	1,100	523	-5
Lloyds Abbey	916	450	+4
Lloyds Bank†	2,500	630	-7
LASMO	5,900	122	
London Elect.	1,400	684	+5
Lonrho	9,100	157	+4
Lucas	634	212	-2
MEPC†	1,400	517	-1
MFI	2,100	174	+1½
Manweb	46	794	-4
Marks & Spencer†	4,300	442	-7
Midlands Elect.	317	725	+7
Morrison (Wm.)	3,900	115	-2
NFC†	206	284	-1
NatWest Bank†	4,000	594	-8
National Power†	2,800	479	-10
Next	8,300	241	-2
North West Water†	1,400	555	-12
Northern Elect.	838	746	+12
Northern Foods†	1,900	257	-4
Norweb	149	759	-2
Pearson†	3,100	664	+9
P & O†	6,400	676	+8
Pilkington	2,400	192	-4
PowerGen†	1,500	558	-6
Prudential†	3,000	354	-2
RMC†	783	1026	-15
RTZ†	2,700	855	+2
Racal	2,400	217	+1
Rank Org.†	1,200	1070	-15
Reckitt & Colman†	762	674	+2
Redland†	1,300	631	-3
Reed Int.†	1,100	936	+1
Rentokil†	2,100	233	-2
Reuters†	500	1962	+29
Rolls Royce†	4,300	185	+2
Ryl Bk Scotland†	347	474	-1
Royal Insurance†	2,400	327	-2
Sainsbury†	2,900	447	+4
Schroders†	28	1415	-3
Scottish & New.†	1,500	560	-2
Scot. Hydro-Elect.	405	443	-7
Scottish Power†	884	451	-7
Sears†	3,900	131½	+1
Sedgwick	3,600	196	-3
Seeboard	1,200	597	-2
Severn Trent†	3,050	587	-9
Shell Transport†	5,700	724	-2
Siebe†	2,300	582	-1
Slough Ests	629	295	-3
Smith (W.H.) A	2,400	530½	-6½
Smith & Nephew†	1,700	154½	-½
SmKl Beecham†	3,600	428	-3
SmKl Beecham Uts.†	1,600	395	-3
Smiths Inds	1,100	691	-3
Southern Elect.†	963	703	-3
South Wales Elect.	[illegible]	[illegible]	-8
South West Water	279	632	-6
South West. Elect.	551	708	-6
Southern Water	622	622	-4
Standard Chart.†	274	1015	+5
Storehouse	5,700	239	-10
Sun Alliance†	4,300	409	+6
T&N	1,600	245	-1
TI Group†	521	471½	-3½
TSB†	3,200	280	-4
Tarmac	7,100	189	+3
Tate & Lyle	2,100	463	-2
Taylor Woodrow	1,000	173	-3
Tesco†	4,900	230	-2
Thames Water†	1,800	571	-3
Thorn EMI†	773	1101	-3
Tomkins†	2,000	274	-2
Trafalgar House	5,200	105½	-1
Unigate	290	416	-12
Unilever†	500	1193	-6
United Biscuits†	1,200	378	-2
Utd. Newspapers	1,300	687	+7
Vodafone†	2,200	584	-6
Warburg (S.G.)†	856	1004	+5
Wellcome†	2,300	673	
Welsh Water	163	691	-7
Wessex Water	179	709	-8
Whitbread 'A'†	831	603	-1
Williams Hldgs.†	516	429	-1
Willis Corroon	3,200	229	-6
Wimpey	1,200	232	
Wolseley†	787	968	+1
Yorkshire Elect.	328	686	-2
Yorkshire Water	1,000	591	-5
Zeneca†	2,100	800	-1

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 Index constituent.

FT - SE Actuaries Share Indices — The UK Series

	Jan 26	Day's chge%	Jan 25	Jan 24	Jan 21	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3436.1	-0.2	3444.0	3481.4	3484.2	2832.5	3.43	5.12	24.28	2.39	1259.47
FT-SE Mid 250	4079.7	-0.3	4091.1	4100.9	4105.8	2984.5	2.99	4.69	26.24	7.21	1482.26
FT-SE Mid 250 ex Inv Trusts	4093.4	-0.3	4105.2	4115.0	4119.6	2983.8	3.08	5.01	24.76	7.37	1482.48
FT-SE-A 350	1738.6	-0.2	1742.8	1758.3	1759.8	1393.3	3.33	5.02	24.71	1.64	1305.44
FT-SE SmallCap	2033.51	-0.1	2035.54	2035.50	2023.71	1468.26	2.70	3.38	37.95	1.91	1543.56
FT-SE SmallCap ex Inv Trusts	2001.76	-0.1	2003.68	2003.58	1990.41	1478.88	2.85	3.73	35.19	2.09	1522.23
FT-SE-A ALL-SHARE	1724.56	-0.2	1728.56	1742.88	1743.65	1373.87	3.28	4.90	25.32	1.63	1317.87

■ FT-SE Actuaries All-Share

	Jan 26	Day's chge%	Jan 25	Jan 24	Jan 21	Year ago	Div. yield%	Earn yield%	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(18)	2615.02	....	2615.40	2659.61	2678.07	1956.90	3.37	4.87	25.41	0.00	1020.06
12 Extractive Industries(4)	3949.56	+0.4	3934.60	4009.13	4065.22	3124.80	3.16	4.63	25.54	0.00	1062.85
15 Oil, Integrated(3)	2534.75	-0.1	2536.91	2576.92	2587.87	1820.50	3.45	5.04	24.74	0.00	1007.89
16 Oil Exploration & Prod(11)	1927.14	-0.2	1931.84	1977.28	2011.13	1841.30	3.10	3.73	34.47	0.00	1092.78
20 GEN MANUFACTURERS(263)	2163.80	-0.1	2166.99	2180.20	2176.37	1660.60	3.41	3.16	43.45	1.40	1071.25
21 Building & Construction(31)	1536.83	-0.2	1542.64	1545.31	1498.05	839.40	2.30	1.15	80.00†	0.29	1177.11
22 Building Matls & Merchs(29)	2360.54	-0.5	2372.86	2393.22	2390.62	1457.50	2.99	2.48	55.40	1.14	1081.58
23 Chemicals(20)	2411.22	-0.7	2428.70	2445.81	2431.15	2075.10	3.83	0.36	‡	0.39	1036.04
24 Diversified Industrials(16)	2110.19	+0.2	2108.59	2125.56	2135.90	1834.00	4.27	4.31	29.86	2.39	1043.20
25 Electronic & Elect Equip(34)	2206.84	+0.6	2194.12	2193.29	2201.24	1759.40	3.34	5.51	22.12	1.10	1048.59
26 Engineering(72)	1924.54	+0.1	1922.63	1938.33	1922.13	1363.90	2.81	2.03	79.59	2.11	1075.13
27 Engineering, Vehicles(12)	2401.31	-0.8	2421.74	2419.24	2417.47	1790.80	4.31	3.21	43.67	0.00	1128.68
28 Printing, Paper & Pckg(27)	2930.38	-0.5	2943.72	2955.67	2971.81	2229.70	2.76	4.29	28.15	0.37	1125.28
29 Textiles & Apparel(22)	1973.40	-1.0	1992.55	1992.49	1995.14	1852.50	3.31	5.03	24.96	0.14	1086.59
30 CONSUMER GOODS(94)	3021.28	+0.2	3015.76	3048.78	3044.03	2942.10	3.69	6.49	18.17	5.62	1006.72
31 Breweries(17)	2425.92	-0.3	2432.90	2455.25	2458.97	2129.60	3.75	7.02	17.51	9.84	1062.97
32 Spirits, Wines & Ciders(10)	3150.97	-0.1	3153.48	3225.93	3184.07	2922.10	3.36	6.10	19.27	19.74	1032.42
33 Food Manufacturers(24)	2567.23	-0.1	2570.74	2582.95	2579.20	2358.80	3.54	6.53	18.15	2.80	1045.14
34 Household Goods(12)	2759.28	+0.2	2752.72	2770.26	2781.88	2416.30	3.11	6.65	17.42	0.00	963.63
36 Health Care(20)	1891.09	......	1890.16	1896.39	1902.10	1891.90	2.83	5.09	23.49	0.82	1071.13
37 Pharmaceuticals(10)	3181.36	+0.9	3153.30	3183.23	3195.66	3430.90	3.78	6.38	18.26	0.00	976.11
38 Tobacco(1)	4353.94	-0.4	4370.71	4416.85	4379.10	4124.00	4.62	7.31	15.95	0.00	937.67
40 SERVICES(221)	2170.79	-0.3	2176.91	2190.86	2194.76	1800.40	2.73	5.19	23.50	2.25	1041.89
41 Distributors(31)	3244.43	+0.3	3235.14	3263.02	3243.97	2451.90	2.58	4.82	25.16	1.24	1096.52
42 Leisure & Hotels(22)	2309.65	-0.5	2320.95	2337.70	2327.76	1729.50	3.52	5.26	23.46	8.84	1117.35
43 Media(40)	3207.09	+0.7	3185.90	3170.35	3161.15	2194.50	1.91	3.85	31.04	1.22	1091.26
44 Retailers, Food(17)	1780.60	-0.4	1788.25	1832.09	1851.79	2220.60	3.44	8.98	13.83	1.67	1033.82
45 Retailers, General(43)	1847.65	-1.0	1866.26	1872.45	1880.65	1477.70	2.57	4.99	25.17	1.33	964.66
48 Support Services(40)	1817.12	-0.4	1823.81	1849.16	1859.83	1527.90	2.15	6.28	18.21	0.63	1083.34
49 Transport(16)	2721.58	+0.1	2719.77	2735.01	2735.43	2013.20	3.07	3.34	33.84	2.48	1043.46
51 Other Services & Business(12)	1321.55	-0.7	1330.49	1327.09	1329.63	1360.40	3.60	3.26	43.68	0.00	1111.39
60 UTILITIES(36)	2659.16	-0.5	2672.66	2677.68	2690.45	2016.10	3.74	8.01	15.06	3.81	993.70
62 Electricity(17)	2521.96	-0.8	2541.60	2520.68	2514.81	1586.00	3.28	9.82	12.52	10.29	1015.80
64 Gas Distribution(2)	2296.42	+1.0	2274.53	2273.53	2312.90	1813.60	5.11	7.40	16.89	0.00	1014.62
66 Telecommunications(4)	2358.81	-0.4	2369.23	2389.55	2402.06	1898.90	3.35	6.00	20.43	0.00	981.00
68 Water(13)	2004.45	-1.7	2039.78	2050.30	2062.38	1631.70	4.61	11.30	9.77	3.48	964.42
69 NON-FINANCIALS(692)	1833.93	-0.2	1836.77	1850.73	1852.98	1515.48	3.36	5.43	22.58	2.00	1259.81
70 FINANCIALS(106)	2643.36	-0.6	2659.41	2693.45	2685.35	1789.10	3.16	3.04	47.16	0.57	1011.61
71 Banks(10)	3425.42	-0.8	3453.78	3514.16	3498.78	2227.90	2.77	3.61	37.05	0.08	990.33
73 Insurance(16)	1560.71	-0.8	1573.39	1593.61	1567.49	1303.80	4.26	‡	‡	0.00	1028.24
74 Life Assurance(6)	2790.64	+0.3	2783.44	2801.66	2843.25	2351.40	4.18	4.36	28.67	0.00	1025.21
75 Merchant Banks(6)	3685.58	+0.3	3672.94	3648.46	3632.14	2045.50	2.41	5.93	20.67	0.00	1079.92
77 Other Financial(25)	2194.72	+0.3	2188.33	2183.20	2175.16	1254.40	2.83	4.93	25.56	4.53	1141.90
79 Property(40)	1810.28	-0.7	1823.82	1841.05	1850.30	1033.60	3.41	3.07	44.63	1.53	1009.56
80 INVESTMENT TRUSTS(116)	3076.71	-0.2	3081.89	3087.12	3089.40	2109.60	2.05	1.66	60.36	3.32	1017.05
89 FT-SE-A ALL-SHARE(858)	1724.56	-0.2	1728.56	1742.88	1743.65	1373.87	3.28	4.90	25.32	1.63	1317.87

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3436.2	3441.6	3449.1	3447.1	3443.3	3447.6	3433.6	3435.7	3436.3	3450.3	3432.8
FT-SE Mid 250	4083.6	4081.7	4085.9	4087.2	4085.9	4087.4	4084.1	4081.5	4080.0	4089.0	4079.4
FT-SE-A 350	1739.0	1740.9	1744.3	1743.6	1742.0	1743.8	1738.0	1738.6	1738.7	1745.0	1737.7

Time of FT-SE 100 High 9:40am Low 2:02pm

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1454.0	1452.9	1453.8	1455.2	1454.7	1455.0	1453.6	1450.6	1450.9	1450.9	1457.0	-6.1
Pharmaceuticls	3125.4	3131.8	3134.5	3150.7	3146.7	3150.2	3137.1	3140.0	3148.0	3148.4	3120.2	+28.2
Water	2008.9	2007.6	2008.9	2021.7	2017.7	2018.1	2016.3	2009.2	2002.1	2002.4	2038.2	-35.8
Banks	3486.1	3492.2	3491.5	3482.7	3480.2	3485.8	3466.7	3472.9	3468.2	3467.8	3496.7	-28.9

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products [illegible]

LONDON EQUITIES

LIFFE EQUITY OPTIONS

Option		Calls Jan	Calls Apr	Calls Jul	Puts Jan	Puts Apr	Puts Jul
Allied-Lyons	650	5	34	45½	1½	23	41
(*652)	700	1	13½	24	49	54½	72
Argyll	260	16	26½	33	1	9½	17½
(*274)	280	1	15½	22	8	19	28
ASDA	60	2	8	9½	1	4½	6½
(*62)	70	1	4	6	8½	10½	12
Brit Airways	460	13	33½	45	1	18	29½
(*471)	500	1	15	26	31	40½	52
SmKl Bchm A	420	11	32	44½	1½	22	31½
(*428)	460	1	15	27½	34	46	55
Boots	550	16	41	51	1	16½	28½
(*583)	600	1	13½	24	39	45½	56½
BP	360	10	25	33	1	14½	20½
(*369)	390	1	11	20	23	30	35
British Steel	130	3	11	15½	1	8	12
(*132)	140	1	6½	11½	9½	14	18
Bass	550	29	49½	59½	1	13½	22½
(*578)	600	1	21	32	22	36½	47
Cable & Wire	500	26½	43½	57½	2	15	25
(*521)	525	3½	28½	44	7	26½	36½
Courtaulds	500	13	33	43	1½	17½	31½
(*509)	550	1	11½	20½	42	48	61
Comm Union	650	35	45½	61½	1	15½	24½
(*682)	700	1	17½	35½	21	42½	50½
ICI	750	28½	47	61	1	32	44
(*774)	800	1	20½	37½	29½	63½	72½
Kingfisher	650	6	38½	51½	3½	29½	39
(*651)	700	1	17	34	51½	60	69½
Land Secur	700	38	55	60½	1	9	19½
(*735)	750	1	25	30½	18	31	45
Marks & S	420	24	36	42½	1	8	15
(*442)	460	1	14	21½	19	27½	35
NatWest	550	46	53	63½	1	12	19
(*593)	600	1½	21½	35½	9½	36	43½
Sainsbury	420	29	42½	50	1	9½	18½
(*446)	460	1	18	28½	15	27	39
Shell Trans.	700	25	37	50	1	18½	27
(*723)	750	1	12½	26	29	49½	55
Storehouse	240	3	15½	22½	2	11½	17
(*240)	260	1	7	13	20½	24	29
Trafalgar	97	9	16	21	1	6	9½
(*105)	106	1	11	16	2½	10½	14
Unilever	1150	48½	70	88½	1	34½	46
(*1193)	1200	2½	38	59½	9	49½	61
Zeneca	800	1	34½	51	2	44½	54½
(*800)	850	1	15½	31½	55	80½	87½
Option		Feb	May	Aug	Feb	May	Aug
Grand Met	460	20½	32	41½	12	20½	27
(*466)	500	5½	14	23	38	43½	49½
Ladbroke	200	12	18½	23½	7	17½	22½
(*202)	220	4	10½	15½	21	31	35½
Utd Biscuits	360	25	31	37½	5½	15½	22
(*378)	390	7½	14½	23½	18½	33	39
Option		Mar	Jun	Sep	Mar	Jun	Sep
Fisons	140	13½	19½	25	12	18	23
(*140)	160	6	12½	17	26	31	35
Option		Feb	May	Aug	Feb	May	Aug
Brit Aero	420	28½	46	59	10½	28	37½
(*436)	460	9	27½	40½	32½	50½	60
BAT Inds	500	28½	44	46½	7	22	32½
(*519)	550	6½	18½	23½	35	53½	63
BTR	330	31	35	41½	2½	9½	13
(*356)	360	9	18	24½	12	23	27
Brit Telecom	420	41½	49½	56½	1½	4½	11½
(*457)	460	10½	22	30½	11	17½	26
Cadbury Sch	500	1½	7	47½	44½	45½	20½
(*526)	550	1	2	23½	94½	94½	48½
Eastern Elec	650	43½	59	69½	5	15	27½
(*684)	700	15	31	43½	26½	35	50½
Guinness	500	33	45½	54½	8½	22½	28
(*525)	550	8	20	30½	35	50	56½
GEC	330	16	24	30	4½	10½	16½
(*340)	360	3	9	15	23	26½	33½

Option		Calls Feb	Calls May	Calls Aug	Puts Feb	Puts May	Puts Aug
Hanson	260	21½	24½	27½	1½	5½	9
(*279)	280	7	12½	16½	7½	14	18
Lasmo	120	9	16½	22	7	13½	17½
(*122)	130	5	12	17	14	19½	23½
Lucas Inds	200	17	23½	29	3½	9½	13½
(*212)	220	5½	12½	18½	13	20½	24
P & O	650	38	53	68	8½	25½	33½
(*675)	700	11½	28	44	34	53	58½
Pilkington	180	16	22½	27	3½	9½	12
(*191)	200	4½	11½	16½	13½	19½	22½
Prudential	330	29	32½	37	2	9	13½
(*354)	360	8½	14	21	13	25	28½
RTZ	850	26	47	67½	20½	41½	52½
(*854)	900	8	25	45	53½	71	80
Redland	600	40½	54	61½	6½	25	35
(*630)	650	12	27	37	29½	53	62
Royal Insce	317	17½	-	-	6½	-	-
(*327)	345	4½	-	-	24	-	-
Tesco	220	15	22	26½	5½	13	15½
(*229)	240	4½	11½	16½	15½	24½	27
Vodafone	550	46	65	77½	7	21½	33
(*583)	600	16½	36	52	30	45	58½
Williams	390	25	33½	40	4	14	19½
(*408)	420	7½	17	25	18	31	35½
Option		Jan	Apr	Jul	Jan	Apr	Jul
BAA	1000	28	62	80	1	22½	42
(*1023)	1050	1	35½	53	30½	50½	66½
Thames Wtr	550	22	39½	48½	1	15½	28½
(*569)	600	1	13½	22½	33	40	57½
Option		Mar	Jun	Sep	Mar	Jun	Sep
Abbey Natl	500	23½	31½	42	19½	26½	35
(*506)	550	5	12½	22	56½	60	65½
Amstrad	45	5	7½	9½	3½	5½	7
(*46)	50	3	5½	7½	6½	8	9½
Barclays	600	42	52	64½	17½	25	35
(*625)	650	16½	28	41	44½	52	61½
Blue Circle	360	33½	40½	48½	9½	20½	29
(*380)	390	15½	25½	33½	24	38½	45
British Gas	330	23½	28½	33½	5½	13½	17
(*344)	360	7	14	20	21	31	34
Dixons	220	18	24½	30	11	18	23½
(*222)	240	7½	16	22	23	27½	35½
Hillsdown	180	13	18	19½	7	15	17
(*183)	200	5	8	12	20½	29	30½
Lonrho	140	21	27½	32½	5	9	14
(*157)	160	10½	16	23	14	19	25
Natl Power	460	35½	47½	57½	12	22	32
(*479)	500	14½	27½	38½	32	44	54
Scot Power	420	37	48½	57½	7	14	23½
(*450)	460	14½	28	36½	25½	32½	43½
Sears	130	8½	12½	14	5½	9	11
(*131)	140	4	7½	9	12	15½	17
Forte	260	16½	21½	29½	9½	18	23
(*265)	280	8	12½	21	21½	30½	34½
Tarmac	193	16	23	-	9	15½	-
(*198)	200	12½	18½	26	13	19	24
Thorn EMI	1100	43	70	87	32	47½	68
(*1101)	1150	21	48½	63	62½	75	87½
TSB	280	11	20½	26½	14	21	26
(*280)	300	4½	12	18½	30	33½	38
Tomkins	260	21	29	34½	6	10½	16½
(*273)	280	9½	17	24	15	19½	26½
Wellcome	650	49½	87	98	23	41	52½
(*669)	700	25	45	63	50½	68	78½
Option		Apr	Jul	Oct	Apr	Jul	Oct
Glaxo	650	50½	73	85	33½	48½	62½
(*668)	700	27½	50½	62½	62½	76	91½
HSBC 75p shs	900	77	102	121	38	59	72½
(*943)	950	50½	77½	98½	62½	80½	101
Reuters	1950	94½	150	187	94½	120	143
(*1958)	2000	70	124	161	122	148	168
Option		Feb	May	Aug	Feb	May	Aug
Rolls-Royce	176	15	-	-	4	-	-
(*185)	195	4½	-	-	14½	-	-

* Underlying security price. Premiums shown are based on closing offer prices.
January 26. Total contracts: 50,834 Calls: 39,842 Puts: 10,992

TRADITIONAL OPTIONS

First Dealings	Jan. 24	Last Declarations	April 21
Last Dealings	Feb. 4	For settlement	May 3

Calls: Alvis, Bula Res., Filofax, First Nat. Finance, Hanson Wts., Lovell (Y.J.), Rodime, Seafield, Shandwick. Puts: First Nat. Finance, London Intl. Puts & Calls: Bula Res., Kunick, London Intl., Wiggins Grp.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	1	70	7
Other Fixed Interest	3	12	0
Mineral Extraction	78	58	72
General Manufactures	142	166	377
Consumer Goods	38	54	105
Services	104	130	288
Utilities	13	25	8
Financials	113	93	185
Investment Trusts	68	116	281
Others	27	56	31
Totals	585	780	1354

Data based on those companies listed on the London Share Service.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1993/94 High	1993/94 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	66.8	73	¾	Baring Emrg Euro	70	-½	-	-	-	-
-	F.P.	10.9	49½	33¾	Do Warrants	44	-1¼	-	-	-	-
100	F.P.	63.7	100	98	Fairbairn Eur Sm	98		-	-	-	-
-	F.P.	33.9	113	101½	Finsbury Under'wrt	113		-	-	-	-
100	F.P.	47.4	119	100	For & Col Small C	118½	+1	-	-	-	-
60	P.P.	18.0	60	59	Friends Prov Eth	60		-	-	-	-
120	P.P.	37.8	126	121	Do. Units	125		-	-	-	-
60	P.P.	18.8	63	61	Do. Zero Div Pf	62½		-	-	-	-
-	F.P.	2.42	53	50	Murray Ent Wrts	50	-1	-	-	-	-
-	F.P.	5.63	93	83	Pantheon Wrts	83		-	-	-	-
100	F.P.	17.4	113	100	Pilot Inv C	113		-	-	-	-
§40	F.P.	7.23	46	44	Rackwood	45		-	-	-	-
§10	F.P.	2.13	11½	10¼	Rossmont	11½		-	-	-	-
60	F.P.	11.2	78	60	¥Securitised En.	74		RN3.5	1.0	5.8	13.1

† Introduction. § Placing price. F.P. Fully-paid security. For an explanation of other notes, please refer to the Guide to the London Share Service.

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renun. date	1993/94 High	1993/94 Low	Stock	Closing price £	+or-
-	F.P.	-	96	90	Budgens 5pc Cv 2003	94½	
80	P.P.	-	88pm	80pm	Pantheon Cv Ln '95/97	88pm	
-	F.P.	-	110¼p	99¼p	Sun Alliance 7⅞pc Pf	109½p	-¾
100p	Nil	18/2	40½pm	27½pm	Trafalgar Hse Cv Rd Pf	37pm	-½
-	F.P.	-	130½	107	Witan 6¼pc Bds	130½	+½

pm Price at a premium. p Pence.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1993/94 High	1993/94 Low	Stock	Closing price p	+or-
48	Nil	17/2	20pm	8pm	Anglo Irish	18pm	
73	Nil	31/1	15pm	11pm	Cementone	15pm	
88	Nil	9/2	18pm	14pm	Crest Nicholson	14pm	
5	Nil	21/2	9½pm	5pm	Europe Energy	6pm	
68	Nil	24/2	7pm	1½pm	Halkin	1½pm	
25	Nil	9/2	1¼pm	¾pm	¥Remus	1¾pm	

pm Price at a premium.

FINANCIAL TIMES EQUITY INDICES

	Jan 26	Jan 25	Jan 24	Jan 21	Jan 20	Yr ago	*High	*Low
Ordinary share	2641.2	2646.2	2671.1	2668.4	2659.1	2187.0	2671.1	2124.7
Ord. div. yield	3.52	3.52	3.49	3.50	3.51	4.32	4.52	3.49
Earn. yld. % full	3.98	3.98	3.95	3.96	3.97	5.93	6.39	3.95
P/E ratio net	31.67	31.70	31.91	31.85	31.77	21.51	31.91	19.40
P/E ratio nil	29.36	29.38	29.58	29.52	29.46	19.87	29.58	18.14
Gold Mines	225.3	226.1	224.1	230.7	245.5	67.5	277.9	60.0

*For 1993/94. Ordinary share index since compilation: high 2671.1 24/01/94; low 49.4 26/6/40
Predecessor Gold Mines index since compilation high: 734.7 15/2/83 - low 43.5 26/10/71
Ordinary share base date 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2641.0	2645.2	2651.8	2650.6	2649.0	2651.8	2640.7	2641.4	2642.3	2653.7	2639.3

	Jan 26	Jan 25	Jan 24	Jan 21	Jan 20	Yr ago
SEAQ bargains	35,725	38,411	41,204	41,868	46,220	38,362
Equity turnover (£m)†	-	2004.9	1423.2	2004.5	2527.7	1482.3
Equity bargains†	-	43,294	45,737	48,732	52,169	43,043
Shares traded (ml)†	-	857.9	720.1	869.2	993.4	694.8

† Excluding intra-market business and overseas turnover.

BANKS

	Notes	Price	+ or –	1993/94 high	low	Mkt Cap£m	Yld Gr's	P/E
ABN Amro Fl		£23¼	+⅛	£26¼	£18¼	6,588	4.4	12.5
ANZ A$		253	+½	253½	130	3,309	3.6	ϕ
Abbey National	†□	606	+4	524	345	8,633	2.9	19.5
Allied Irish I£	‡†a□	298	+3	314	179	1,963	3.5	15.2
Anglo Irish I£	M□	67xd	–1	*70	28	163.0	6.3	ϕ
Asahi Y		682	+37½	844	415	15,823	0.7	–
Banco Bil Viz Pts		£14⅜	+⅛	£17⅞	£13⅜	3,389	5.6	6.6
Banco Sant Pts		£32⅛	—	£36	£24⅞	3,569	4.1	12.2
Bank Leumi (UK)		376	—	376	325	28.6	5.7	–
Bk Ireland I£	‡uz□	388	—	*319	177	1,451	4.0	22.7
Bank Scotland	‡†□	241	–2	247	116½	2,805	2.4	32.7
9¼pc Pf		140	–¼	140¾	117¾	140.0	8.3	–
9¾pc Pf		147	—	147½	129½	147.0	8.3	–
Barclays	‡N□	625	–4	662	382	10,143	2.5	–
Dai Ichi Kan Y		£11½	+⅞	£16⅞	£8⅞	35,888	0.5	63.8
Deutsche DM		£306¼	+2⅞	£348⅞	£250½	14,577	2.0	–
Espirito Santo		£24⅞	+⅛	£25¼	£16½	266.9	3.2	6.0
First Nat Fin	□	89xd	+2	*95	45	148.4	2.1	ϕ
6.3pc Cv Pf		88xd	—	*91	55	6.92	8.9	–
7pc Cv Pf		164½xd	—	167½	106	78.1	5.3	–
Fuji Bank Y		1276½	+24	1651	876	96,964	0.4	–
HSBC HK	†□	960	–13	1007	474	16,387	2.6	23.0
HSBC (75p Shs)	†□	943	–11	993	490	7,742	2.7	22.6
Lloyds	†□	630	–7	690	492	8,089	3.8	18.0
Mitsubishi Y		£17⅞	+⅜	£19⅞	£11⅞	50,331	0.3	–
Mits Tst & Bk Y		828	+30	1012½	462½	10,782	0.6	13.3
Mitsui Tst & Bk Y		658¼	+24	852	374	7,884	0.8	22.4
Nat Aust A$		588	+4½	595	322	7,702	3.9	ϕ
NatWest	†□	594	–8	634	399	9,872	3.7	36.1
Ottomane FFr		£33	+1	£33	£23¼	165.0	4.5	3.7
Ryl Bk Scotland	‡N□	474xd	–1	482	207	3,763	2.9	21.4
Sakura Y		£9⅞	+¼	£11	£5¼	30,382	0.6	57.2
Sanwa Y	S	£13⅓	+⅞	£16	£7¾	38,060	0.4	–
Standard Chartd	†□	1315	+5	1370	576	3,131	1.9	–
Sumitomo Y		£13⅛	+⅛	£16¼	£8⅞	41,021	0.4	28.1
Sumitomo Tst Y		773¼	+27	987½	437½	9,822	0.7	60.6
TSB	‡N□	280	–4	297	145½	4,250	3.5	21.7
Tokai Y		£7⅞	+⅛	£9⅞	£4⅞	15,466	0.7	51.0
Toyo Tst & Bk Y		664½	+35¼	840	411	5,222	0.7	59.3
Westpac A$		237	—	237	121	4,155	2.3	ϕ
Yasuda Tst Bk Y	‡	624¼	+16	690	343	5,789	0.9	46.8

BREWERIES

	Notes	Price	+ or –	1993/94 high	low	Mkt Cap£m	Yld Gr's	P/E
Ascot Hldgs	□	8½	–1	16½	4½	30.1	–	–
Bass	‡N□	578xd	—	847	441	5,025	4.3	15.7
Boddington	†□	281	–1	299	189	338.9	3.4	18.4
Burtonwood		180xd	–2	193	129	37.4	3.3	15.0
Eldridge Pope A	‡	165xd	–1	181	75	32.1	2.7	ϕ
Fosters A$		64	—	70½	50	2,059	4.3	ϕ
Fuller STA	‡†	460	–3	465	338	93.4	2.0	19.7
Gibbs Mew	‡†	393	—	403	148	25.2	2.6	19.3
Greenalls	‡qN□	470xd	–13	511	347	980.9	3.3	16.2
Greene King	†N□	581xd	–4	584	505	237.3	2.8	15.7
Grosvenor Inns	‡	141	—	148	78	11.4	3.8	18.9
Halkin		67	–1	*80	31	24.9	–	52.3
[illegible]								

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

BUILDING MATS. & MERCHANTS - Cont.

	Notes	Price	+ or –
Travis Perkins	□	348	[illegible]
Tudor	‡	21	[illegible]
Unigroup	□	38	[illegible]
Waterhouse	‡	33	[illegible]
Wickes	q□	125	[illegible]
Wilshaw	†N□	44xd	[illegible]
Wolseley	‡N□	908xd	[illegible]

CHEMICALS

	Notes	Price
AGA SKr		£34⅞
Akzo Fl		£71⅞
Allied Colloids	†N□	247xd
Amber Ind	†N	745
BASF DM		£111⅞
BOC	‡N□	691xd
BTP	‡†N□	361xd
Bayer DM		£139⅞
Brent	N□	124
British Vita	†□	282
Cambridge Iso S	‡	22
Canning (W)	‡□	183
Camerstone	‡N	99xr
Warrants		31xr
Courtaulds	†N□	510
Croda	†N□	383
Doeflex	‡	127
European Colour	‡†□	35½
Gibbon Lyons	‡†	146xd
Hartons	□	4
7pc Pf		23
Headway	‡N	40
Hickson	‡N□	190
Hoechst DM		£117⅞
[illegible]		

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING, VEHICLES

[illegible]

ENGINEERING, VEHICLES - Cont.

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD MANUFACTURERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

	Notes	Price	+ or -	1993/94 high	low	Yld Gr's	NAV	Dis or Pm(-)
Perpetual Japan		101	+3	108	83	–	94.4	-6.5
Warrants		73	+4	75	37	–	–	–
Personal Assets	†	£89¼	-¼	£89½	£70½	2.7	9077.5	4.8
Plaid Inv		145		149	98	0.4	137.6	-5.1
Warrants		60		67	21	–	–	–
Praedium		277		283	157	2.8	321.8	13.9
RIT Capital		180	-2	189	100	0.8	214.7	16.2
2½pc Cv Ln 2000		£100½	-1	£108½	£100½	1.4	–	–
Radiotrust		79		83	47	–	64.0	-18.0
Rights & Iss Inc	†	183		183	114	6.4	–	–
Cap		625		625	303	1.9	551.7	4.8
Riv & Merc Am Inc		115xd		115	108	6.5	–	–
Cap		35		35	27	–	47.8	31.0
Warrants		14		14	11	–	–	–
Riv & Mer Ext		146	-1	147	87	6.8	139.5	-4.5
Warrants		44	-3	48	13	–	–	–
Zero Div Pf		117½		117½	103	–	–	–
Riv & Mer Geared		115		116	81	8.2	–	–
Prid Cap 1998		34		36	18	–	40.7	16.6
Riv & Merc Smllr		157	-1	159	95	3.2	154.7	-1.5
Warrants		59	-6	65	22	–	–	–
Riv & Merc Tst Inc		125		127	108	9.2	–	–
Cap		141		143	55	–	257.7	45.3
Warrants		35		35	8	–	–	–
Rn. Cdpnd Pf		162½		169	147	4.3	–	–
River Plate Inc		118xd		119	98	10.1	–	–
Cap		109	+1	110	29	–	205.9	47.1

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

INVESTMENT COMPANIES

MERCHANT BANKS

OIL EXPLORATION & PRODUCTION

LEISURE & HOTELS

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PHARMACEUTICALS

PRINTING, PAPER & PACKAGING

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SPIRITS, WINES & CIDERS

SPIRITS, WINES & CIDERS - Cont.

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

TRANSPORT - Cont.

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	1993/94 high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£13½		£13½	£7½	805.4	5.2	11.4
Barlow Rand		£4⅛	-1/16	£10⅝	£4	810.0	7.9	7.5
Gold Fields SA R		£14		£18	£7¾	1,417	2.8	24.2
MK Props	as	90		97	68	3.82	15.1	φ
SASOL	♥	289	-3	308	215	1,637	5.4	–
SA Brews		£12	+1/16	£15	£7	6,734	2.2	20.6
Tiger Oats		713		838	513	1,071	2.3	15.1
Tongaat-Hulett	†	468xd	+16	472	212	350.3	3.2	13.1

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- φ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ☆ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
k Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IMR 'Headline Earnings'
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣ . Ring 081 770 0770 (open 24 hours including weekends) or fax 081 770 3822, quoting the code FT1089. (If calling from outside UK, dial +44 81 770 0770 or fax +44 81 770 3822) Reports will be sent the next working day, subject to availability. If faxing please remember to state the weekly changing FT code above and also your post code.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, international) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

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AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♠) - 1401 to 1700 hours; (♦) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation.
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

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OTHER UK UNIT TRUSTS

INSURANCES

FT MANAGED FUNDS SERVICE

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Royal Life Insurance Ltd

New Hall Place, Liverpool L69 3HS 051-239 3000

	Bid Price	Offer Price	+ or -	Yield Gross
Royal Shield Fd	994.4	1052.2	—	-
Royal Life (Unit Linked Assurances) Ltd				
Managed Fund	396.5	417.3	-1.2	-
Equity Fund	572.8	602.9	-4.1	-
Property Fund	308.3	327.4	+0.1	-
International Fund	490.4	516.2	+1.3	-
Gilt Fund	384.2	404.4	-0.3	-
Money Fund	216.6	228.0	—	-
United States Fund	258.0	269.4	-0.8	-
Pacific Basin	306.0	322.1	+3.0	-
Royal Life (Unit Linked Pension Fds) Ltd				
Exempt Man Fd Acc	490.3	516.6	-1.4	-
Exempt Equity Fd Acc	872.0	917.8	-6.0	-
Exempt Prop Fd Acc	314.9	331.4	—	-
Exempt Int Fd Acc	800.9	843.0	+2.7	-
Exempt Gilt Fd Acc	460.0	484.2	-0.6	-
Exempt Money Fd Acc	297.3	312.9	—	-

Royal Liver Assurance

Royal Liver Building, Liverpool, L3 1HT. 051-236 1451

	Bid Price	Offer Price	+ or -	Yield Gross
UK Equity	83.5	87.9	+0.4	-
Global Equity	61.3	64.6	+0.4	-
High Yield	82.0	86.3	+1.0	-
Intl Equity	87.2	91.8	+0.6	-
Fixed Interest	83.0	87.4	-0.3	-
Money	76.0	80.0	—	-
Managed	84.5	88.9	+0.4	-
Pensions				
UK Equity	91.5	96.3	+0.5	-
Global Equity	65.6	69.0	+0.0	-
High Yield	96.5	101.6	+1.6	-
Intl Equity	97.5	102.6	+0.6	-
Fixed Interest	100.0	105.3	-0.7	-
Money	94.1	99.0	+0.1	-
Managed	95.4	100.4	+0.4	-
Tax Exempt				
Tax Exempt Mgd	71.2	74.9	-0.2	-

S-E-Banken Life Assurance Co Ltd

149-151 High Rd, Chadwell Hth RM6 6PJ 081-597 7566

	Bid Price	Offer Price	+ or -	Yield Gross
Managed Fund	161.9	170.5	-0.5	-
Pension Mngd Fd	183.0	192.7	-0.3	-

Save & Prosper Group (z)

16-22 Western Rd, Romford RM1 3LB 0708-766966

	Bid Price	Offer Price	+ or -	Yield Gross
Bal Inv Fd	779.1	824.5	-1.2	2.12

Skandia Life Assurance Co Ltd (z)

Skandia Hse, Portland Terr, Southampton 0703 334411

Skandia Valuation Line 0800 181396

	Bid Price	Offer Price	+ or -	Yield Gross
Life Managed Funds				
Skandia Cautious	148.5	156.3	+0.2	-
Skandia Balanced	390.7	411.2	+1.0	-
Skandia Distribution	120.6	126.9	+0.1	-
Skandia Ethical Selection	126.5	133.1	+0.1	-
Skandia Deposit	260.2	273.8	—	-
Abtrust Managed	135.7	142.8	+0.2	-
Baring Managed	149.5	157.3	+0.4	-
CU Managed	251.3	264.5	+1.0	-
Fidelity Managed	214.7	225.9	+0.2	-
Fleming Managed by Tst	148.7	156.5	+0.1	-
F & C Investment Trust	191.2	201.2	+0.6	-
Framlington Managed	244.7	257.5	+0.4	-
Gartmore Managed	275.7	290.2	+1.1	-
Henderson Managed	275.1	289.5	+0.6	-
Hill Samuel Managed	243.2	255.9	+0.4	-
Invesco Managed	209.9	220.9	+0.3	-
James Capel Core Mngd	145.0	152.6	+0.4	-
Kleinwort Benson Mngd	144.6	152.2	+0.3	-
Martin Currie Mngd	159.3	167.6	-0.1	-
Morgan Grenfell Mngd	165.1	173.7	+0.4	-
Murray Johnstone Managed	159.6	168.0	-0.3	-
Perpetual Managed	236.8	249.7	+0.2	-
Schroder Managed	142.9	150.4	—	-
Pension Managed Funds				
Skandia Cautious	164.4	173.0	+0.2	-
Skandia Balanced	620.2	652.8	+1.5	-
Skandia Ethical Selection	140.7	148.1	-0.2	-
Skandia Deposit	447.1	470.6	+0.1	-
Abtrust Managed	147.8	155.6	+0.3	-
Baring Managed	171.3	180.3	+0.6	-
BZW Managed	136.0	143.1	+0.4	-
CU Managed	305.9	321.9	+1.5	-
Fidelity Managed	240.7	253.3	+0.4	-
Fleming Managed by Tst	172.2	181.2	+0.2	-
F & C Investment Trust	220.7	232.3	+0.7	-
Framlington Managed	380.4	400.4	+0.7	-
Gartmore Managed	414.2	435.9	+2.1	-
Henderson Managed	367.7	387.0	+1.0	-
Hill Samuel Managed	314.3	330.8	+1.0	-
Invesco Managed	296.3	311.8	+0.6	-
James Capel Core Mngd	164.0	172.6	+0.5	-
Kleinwort Benson Mngd	155.6	163.7	+0.6	-
Martin Currie Mngd	179.0	188.4	-0.2	-

Teachers" Assurance Company Ltd

12 Christchurch Rd, B'mouth BH1 3LW

	Bid Price
Managed Fund	369.0
Gilt & Fixed Int Fd	247.4
Cash Fund	195.2
Pensions Managed	204.3
Pensions Cash	164.3

Templeton Life Assurance Ltd

80 Union Street, Oldham OL1 1DT

	Bid Price
Global Growth	197.11
Global Enterprise	208.40
Global Managed	187.77
Global Fixed Interest	140.53
Sterling Haven	122.70
Plan 2000 (Time)	218.32
Tax Exempt (Time)	134.67
Global Growth (Pen)	228.55
Global Enterprise (Pen)	228.38
Global Managed (Pen)	218.49
Global Fixed Int (Pen)	169.02
Sterling Haven (Pen)	132.77

Tunbridge Wells Equitable

Abbey Court, Tunbridge Wells

Assurances & Pensions

	Bid Price
Capital & Income	497.00
Ctrl Regular	95.00
Ctrl Exempt	112.80
Prive Plan Exempt	313.5
Do. Taxable	247.0
Berkshire Bond Exempt	129.5
Do. Standard	108.5
Dominion Growth Exempt	158.1
Dominion Growth	411.4
Pens Managed Ordinary	190.70
Pens Deposit Ordinary	179.40
Mountain Funds	
Life Assurance	876.20
Savings Narrow	500.40
Savings Wide	871.10

Wesleyan Assurance Society

Colmore Circus, Birmingham, B4 6AR

	Bid Price
Managed Fd	350.3
Pens Managed Fd	241.1

Windsor Life Assur Co Ltd

Windsor House, Telford, Shropshire

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

IRELAND (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

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LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES AND MONEY

MARKETS REPORT

Profit takers chip at £

Technical factors caused sterling to lose ground yesterday during London trading, but analysts said it remained underpinned by sound economic fundamentals, *writes Philip Gawith.*

Against the background of another quiet day in the markets, the pound weakened against the D-Mark on profit-taking following the currency's recent failure to break through the DM2.62 level. It also ended lower against the dollar.

The atmosphere in the markets was likened to a "phoney war" with currencies trading in fairly narrow ranges, awaiting new information to give them renewed impetus. The relative weakness of the D-Mark continued to trigger some activity, particularly in European currencies, with the Portuguese authorities yesterday following the example of the Spanish and Belgian central banks in announcing a rate cut.

● The yen remained fairly stable yesterday following the apparent breakdown of trade talks between the US and Japan. The Japanese currency closed in London at Y110.420 to the dollar, up from Tuesday's close of Y111.155.

Mr Gerard Lyons, chief economist at DKB International, said: "The yen is remaining well underpinned despite the political and economic uncertainty. The market perceives the Japanese political situation as indicating the US authorities wanting to keep the yen firm." Economic and political uncertainty normally undermine a currency, but in this case a firmer yen is seen as assisting the US achieve its aim of the narrowing the trade deficit with Japan.

Earlier the dollar had weakened during Japanese trading following reports that Mr Fred Bergsten, director of the US think-tank, the Institute for International Economics (IIE), would revise his target range for the dollar to Y90-110 from Y100-110. Dealers said Mr Bergsten was believed to have considerable influence in U.S. government circles.

Others questioned the logic that had taken the US currency lower, saying a dollar around Y90-100 would not be good either for Japan or the world economy. It was noted also that the US Federal Reserve intervened last August to support the dollar when it weakened towards Y100.

Mr Lyons said that while he still regarded the yen as a strong currency in the longer term, there remained a short-term risk if the government's current political difficulties lead to an early election which would make the yen vulnerable.

● Sterling fell against the dollar closing in London at $1.4926, down from $1.494 on Monday. Against the D-Mark it fell nearly a pfennig, finishing at DM2.6089 compared to Monday's close of DM2.6187. Observers said the pound appeared to have run out of steam, having appreciated steadily against both currencies in recent weeks. That it has not retreated further was due to underlying bullish sentiment, based on a raft of recent figures indicating solid economic growth with little inflationary threat. Analysts said it was unlikely yesterday's weakness in sterling reflected concern about the government's political weakness. Mr Steve Barrow, economist at Chemical Bank, commented: "The political factors have been here for quiet a while and if they were going to have any bearing they would probably have done so a few weeks ago."

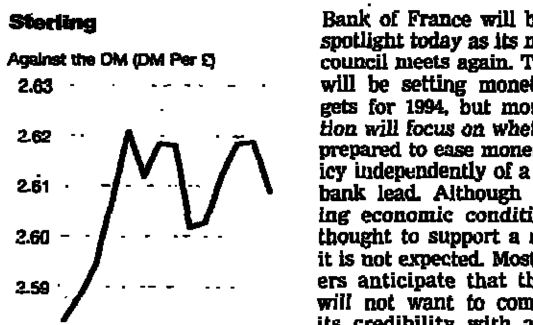
● The newly independent Bank of France will be in the spotlight today as its monetary council meets again. The Bank will be setting monetary targets for 1994, but more attention will focus on whether it is prepared to ease monetary policy independently of a Bundesbank lead. Although underlying economic conditions are thought to support a rate cut, it is not expected. Most observers anticipate that the Bank will not want to compromise its credibility with an early monetary easing. Mr Barrow commented: "The Bank is still finding its feet as far as monetary policy is concerned. It would run the risk of losing its credibility before it was even gained if it is seen so soon doing something different from its predecessor." The French franc yesterday closed slightly weaker against the D-Mark at FFr3.393 compared to Monday's close of FFr3.390.

● The D-Mark was generally higher in European trading yesterday. Hopes of lower interest rates declined in spite of encouraging inflation figures because of the prospect of poor German M3 money supply data for December and the recent weakness of the currency. Bundesbank deputy president Mr Johann Wilhelm Gaddum said German money supply growth will miss the Bundesbank's 6.5 per cent target ceiling in December, a judgement endorsed by another Bundesbank board member, Mr Otmar Issing. The D-Mark closed at DM1.748 to the dollar, up from DM1.7528 on Tuesday.

● The Bank of Portugal cut its regular intervention rates by ¼ point to 9.50 per cent yesterday. The rate cut initially prompted a strong move ahead in the escudo, but later in European trading it returned back to levels seen late on Tuesday of around Es100.36-41 to the D-Mark.

● The Bank of England yesterday provided late assistance of about £420m in its daily money market operations. It had earlier provided the market with £219m of assistance at the established rate of 5⅜ per cent. The early forecast of a shortage of £950m was later revised downwards to about £800m.

Sterling



Source: FT Graphite

Pound in New York

Jan 26	—Latest—	– Prev. close –
£ spot	1.4935	1.4950
1 mth	1.4905	1.4919
3 mth	1.4853	1.4868
1 yr	1.4712	1.4727

POUND SPOT FORWARD AGAINST THE POUND

Jan 26		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	18.3337	-0.0838	269 - 405	18.4505	18.3264	18.3375	-0.2	18.3468	-0.3	-	-	113.1
Belgium	(BFr)	54.0378	-0.1197	063 - 692	54.2962	53.9166	54.1228	-1.9	54.2528	-1.6	54.5978	-1.0	113.0
Denmark	(DKr)	10.1317	-0.0212	285 - 349	10.1649	10.1189	10.1427	-1.3	10.1532	-0.8	10.1622	-0.3	114.5
Finland	(FM)	8.3748	-0.0378	660 - 837	8.4267	8.3660	-	-	-	-	-	-	81.6
France	(FFr)	8.8534	-0.0225	496 - 571	8.8895	8.8468	8.8613	-1.1	8.8742	-0.9	8.8918	-0.4	107.6
Germany	(DM)	2.6089	-0.0098	079 - 099	2.6205	2.6059	2.6105	-0.7	2.6124	-0.5	2.6131	-0.2	121.6
Greece	(Dr)	374.408	-1.037	970 - 842	375.821	374.319	-	-	-	-	-	-	-
Ireland	(I£)	1.0408	-0.0028	391 - 421	1.0434	1.0391	1.0412	-0.7	1.042	-0.6	1.045	-0.4	104.1
Italy	(L)	2538.01	-4.78	649 - 955	2542.69	2534.98	2544.81	-3.2	2557.06	-3.0	2602.96	-2.6	76.2
Luxembourg	(LFr)	54.0378	-0.1197	063 - 692	54.2962	53.9166	54.1228	-1.9	54.2528	-1.6	54.5978	-1.0	113.0
Netherlands	(Fl)	2.9221	-0.0099	212 - 229	2.9349	2.9195	2.922	0.0	2.9228	-0.1	2.9126	0.3	117.6
Norway	(NKr)	11.2100	-0.0301	043 - 156	11.2432	11.2012	11.2057	0.5	11.2005	0.3	11.2073	0.0	84.5
Portugal	(Es)	261.905	-0.965	749 - 061	262.723	261.610	263.18	-5.8	265.33	-5.2	-	-	-
Spain	(Pta)	211.360	-0.594	250 - 470	212.207	210.186	212.03	-3.8	213.16	-3.4	217.33	-2.8	85.2
Sweden	(SKr)	11.8972	-0.081	889 - 054	12.0102	11.8894	11.9207	-2.4	11.9517	-1.8	12.0682	-1.4	77.3
Switzerland	(SFr)	2.1976	+0.0021	967 - 984	2.2035	2.1902	2.1953	1.3	2.1904	1.3	2.1666	1.4	117.3
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	82.4
Ecu	-	1.3411	-0.0047	406 - 416	1.3470	1.3400	1.3425	-1.3	1.3447	-1.1	1.3484	-0.5	-
SDR†	-	0.919019	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.4925	-0.0015	922 - 928	1.4970	1.4922	-	-	-	-	-	-	-
Brazil	(Cr)	649.308	+10.249	195 - 420	651.007	639.000	-	-	-	-	-	-	-
Canada	(C$)	1.9608	-0.0002	601 - 615	1.9674	1.9597	1.9579	1.8	1.9528	1.6	1.9377	1.2	92.4
Mexico	(New Peso)	4.6359	-0.003	336 - 381	4.6482	4.6378	-	-	-	-	-	-	-
USA	($)	1.4926	-0.0014	923 - 928	1.4970	1.4920	1.4896	2.4	1.4845	2.2	1.4705	1.5	67.3
Pacific/Middle East/Africa													
Australia	(A$)	2.1044	-0.0051	033 - 055	2.1126	2.1025	2.1029	0.9	2.1006	0.7	2.0986	0.3	-
Hong Kong	(HK$)	11.5273	-0.0125	246 - 299	11.5628	11.5246	11.5056	2.3	11.4712	1.9	11.3711	1.4	-
India	(Rs)	46.8194	-0.0458	097 - 291	46.8291	46.8097	-	-	-	-	-	-	-
Japan	(Y)	164.806	-1.258	735 - 880	166.030	164.710	164.358	3.3	163.493	3.2	159.658	3.1	176.5
Malaysia	(M$)	4.1071	-0.0209	056 - 085	4.1332	4.1061	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.6243	-0.0067	222 - 263	2.6325	2.6221	2.6272	-1.3	2.6315	-1.1	2.6401	-0.6	-
Philippines	(Peso)	41.3437	-0.1149	383 - 491	41.6481	41.0383	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.5968	-0.0053	955 - 980	5.6132	5.5969	-	-	-	-	-	-	-
Singapore	(S$)	2.3874	-0.0087	862 - 885	2.3981	2.3862	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.1004	-0.0125	984 - 024	5.1263	5.0984	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.5785	+0.0049	699 - 870	6.5974	6.5689	-	-	-	-	-	-	-
South Korea	(Won)	1206.80	-1.92	652 - 708	1210.91	1206.52	-	-	-	-	-	-	-
Taiwan	(T$)	39.4780	-0.0533	564 - 995	39.6100	39.4564	-	-	-	-	-	-	-
Thailand	(Bt)	38.0377	-0.0967	089 - 664	38.1590	38.0690	-	-	-	-	-	-	-

†SDR rate for Jan 25. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jan 26		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Morgan G'ty Index
Europe													
Austria	(Sch)	12.2835	-0.044	810 - 860	12.3000	12.2655	12.3085	-2.4	12.3485	-2.1	12.4535	-1.4	102.5
Belgium	(BFr)	36.2050	-0.045	900 - 200	36.2700	36.0650	36.335	-4.3	36.545	-3.8	37.125	-2.5	102.8
Denmark	(DKr)	6.7882	-0.0076	872 - 892	6.7979	6.7715	6.8094	-3.8	6.8397	-3.0	6.9107	-1.8	103.4
Finland	(FM)	5.6111	-0.0199	061 - 161	5.6357	5.5995	5.6223	-2.4	5.6366	-1.8	5.6826	-1.3	76.6
France	(FFr)	5.9317	-0.0093	302 - 332	5.9395	5.9210	5.9488	-3.5	5.9778	-3.1	6.0467	-1.9	104.1
Germany	(D)	1.7480	-0.0048	476 - 483	1.7500	1.7438	1.7526	-3.1	1.7598	-2.7	1.7771	-1.7	103.4
Greece	(Dr)	250.850	-0.45	600 - 100	250.900	250.350	254.35	-16.7	261.35	-16.7	293.35	-16.9	71.6
Ireland	(I£)	1.4344	+0.0025	325 - 362	1.4397	1.4334	1.4306	3.2	1.4245	2.7	1.4067	1.9	-
Italy	(L)	1700.45	-1.55	970 - 120	1700.00	1696.75	1708.4	-5.6	1722.45	-5.2	1707.4	-0.4	76.8
Luxembourg	(LFr)	36.2050	-0.045	900 - 200	36.2700	36.0650	36.335	-4.3	36.545	-3.8	37.125	-2.5	102.8
Netherlands	(Fl)	1.9578	-0.0047	575 - 580	1.9634	1.9537	1.9618	-2.4	1.9677	-2.0	1.9807	-1.2	103.0
Norway	(NKr)	7.5106	-0.0129	081 - 131	7.5175	7.4890	7.5248	-2.3	7.5468	-1.9	7.6096	-1.3	94.6
Portugal	(Es)	175.475	-0.475	400 - 550	175.550	174.850	176.575	-7.5	178.535	-7.0	186.075	-6.0	94.3
Spain	(Pta)	141.610	-0.28	560 - 660	141.850	140.500	142.345	-6.2	143.685	-5.8	147.785	-4.4	80.8
Sweden	(SKr)	7.9710	-0.0532	668 - 752	8.0280	7.9564	8.0022	-4.7	8.0512	-4.0	8.2105	-3.0	82.3
Switzerland	(SFr)	1.4724	+0.0029	720 - 727	1.4745	1.4640	1.4738	-1.1	1.4755	-0.8	1.4734	-0.1	104.4
UK	(£)	1.4926	-0.0014	923 - 928	1.4970	1.4920	1.4896	2.4	1.4845	2.2	1.4705	1.5	91.7
Ecu	-	1.1130	+0.0028	127 - 132	1.1147	1.1112	1.1096	3.6	1.1041	3.2	1.0906	2.0	-
SDR†	-	1.37182	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.0000	-	999 - 000	0.9995	1.0000	-	-	-	-	-	-	-
Brazil	(Cr)	435.033	+7.283	030 - 035	435.050	435.030	-	-	-	-	-	-	-
Canada	(C$)	1.3138	+0.0012	135 - 140	1.3158	1.3124	1.3145	-0.6	1.3155	-0.5	1.3178	-0.3	88.9
Mexico	(New Peso)	3.1060	+0.001	050 - 070	3.1070	3.1050	3.1078	-0.6	3.1104	-0.6	3.121	-0.5	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	102.5
Pacific/Middle East/Africa													
Australia	(A$)	1.4099	-0.002	094 - 104	1.4126	1.4055	1.4109	-0.9	1.4138	-1.1	1.4213	-0.8	89.0
Hong Kong	(HK$)	7.7232	-0.0009	227 - 237	7.7244	7.7230	7.7247	-0.2	7.7272	-0.2	7.7382	-0.2	-
India	(Rs)	31.3688	-	675 - 700	31.3700	31.3675	31.4338	-2.5	31.5688	-2.6	-	-	-
Japan	(Y)	110.420	-0.735	390 - 450	111.040	110.130	110.345	0.8	110.135	1.0	108.59	1.7	139.5
Malaysia	(M$)	2.7517	-0.0113	512 - 522	2.7624	2.7505	2.7452	2.8	2.7442	1.1	2.7667	-0.5	-
New Zealand	(NZ$)	1.7583	-0.0027	572 - 593	1.7603	1.7569	1.7599	-1.1	1.7644	-1.4	1.7788	-1.2	-
Philippines	(Peso)	27.7000	-0.05	000 - 000	27.9500	27.5500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7498	+0.0001	496 - 500	3.7500	3.7495	3.7522	-0.8	3.7565	-0.7	3.7753	-0.7	-
Singapore	(S$)	1.5995	-0.0043	990 - 000	1.6034	1.5963	1.5984	0.9	1.5962	0.8	1.6085	-0.6	-
S Africa (Com.)	(R)	3.4173	-0.005	165 - 180	3.4285	3.4150	3.4343	-6.0	3.4633	-5.4	3.5708	-4.5	-
S Africa (Fin.)	(R)	4.4075	+0.0075	025 - 125	4.4130	4.3900	4.4385	-8.4	4.4975	-8.2	-	-	-
South Korea	(Won)	808.550	-0.5	500 - 600	809.000	808.500	811.55	-4.5	815.05	-3.2	833.55	-3.1	-
Taiwan	(T$)	26.4500	-0.01	400 - 600	26.4600	26.4400	26.5525	-4.7	26.7	-3.8	-	-	-
Thailand	(Bt)	25.4850	-0.04	700 - 000	25.5000	25.4700	25.555	-3.3	25.695	-3.3	25.835	-1.4	-

†SDR rate for Jan 26. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. Morgan Guaranty Changes shown for Jan 25. Base average 1990=100

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jan.26		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.76	16.38	4.828	1.926	4697	5.407	20.74	484.6	391.2	22.02	4.067	1.850	3.629	2.763	305.0	2.481
Denmark	(DKr)	53.35	10	8.739	2.576	1.028	2505	2.885	11.07	258.5	208.7	11.75	2.170	0.987	1.936	1.474	162.7	1.324
France	(FFr)	61.04	11.44	10	2.947	1.176	2867	3.301	12.66	295.8	238.8	13.44	2.483	1.130	2.215	1.686	186.2	1.515
Germany	(DM)	20.71	3.883	3.393	1	0.399	972.8	1.120	4.297	100.4	81.03	4.561	0.842	0.383	0.752	0.572	63.17	0.514
Ireland	(I£)	51.91	9.731	8.504	2.506	1	2438	2.807	10.77	251.6	203.1	11.43	2.111	0.961	1.884	1.434	158.3	1.288
Italy	(L)	2.129	0.399	0.349	0.103	0.041	100.	0.115	0.442	10.32	8.329	0.469	0.087	0.039	0.077	0.059	6.493	0.053
Netherlands	(Fl)	18.49	3.467	3.030	0.893	0.356	868.6	1	3.836	89.63	72.35	4.073	0.752	0.342	0.671	0.511	56.40	0.459
Norway	(NKr)	48.21	9.037	7.897	2.327	0.929	2264	2.607	10	233.6	188.6	10.62	1.961	0.892	1.749	1.332	147.0	1.196
Portugal	(Es)	20.63	3.868	3.380	0.996	0.397	969.1	1.116	4.280	100.	80.72	4.544	0.839	0.382	0.749	0.570	62.92	0.512
Spain	(Pta)	25.56	4.792	4.188	1.234	0.492	1201	1.382	5.303	123.9	100.	5.629	1.040	0.473	0.928	0.706	77.96	0.634
Sweden	(SKr)	45.41	8.513	7.439	2.192	0.875	2133	2.455	9.420	220.1	177.6	10	1.847	0.840	1.648	1.255	138.5	1.127
Switzerland	(SFr)	24.59	4.609	4.028	1.187	0.474	1155	1.329	5.100	119.2	96.18	5.414	1	0.455	0.892	0.679	74.98	0.610
UK	(£)	54.04	10.13	8.853	2.609	1.041	2538	2.922	11.21	261.9	211.4	11.90	2.198	1	1.961	1.493	164.8	1.341
Canada	(C$)	27.56	5.166	4.515	1.330	0.531	1294	1.490	5.716	133.6	107.8	6.068	1.121	0.510	1	0.761	84.04	0.684
US	($)	36.20	6.785	5.930	1.747	0.697	1700	1.957	7.506	175.4	141.6	7.971	1.472	0.670	1.313	1	110.4	0.898
Japan	(Y)	327.9	61.47	53.72	15.83	6.317	15400	17.73	68.02	1589	1283	72.21	13.34	6.068	11.90	9.059	1000.	8.137
Ecu		40.30	7.554	6.602	1.946	0.776	1893	2.179	8.359	195.3	157.6	8.874	1.639	0.746	1.462	1.113	122.9	1

Yen per 1,000: Danish Kroner, French Franc, Norwegian Kroner and Swedish Kronor per 10; Belgian Franc, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.5696	0.5700	+0.0010	0.5711	0.5692	37,367	145,549
Jun	0.5669	0.5664	+0.0002	0.5670	0.5660	519	7,781
Sep	-	0.5634	-0.0004	-	-	23	276

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.9029	0.9076	+0.0061	0.9092	0.9015	27,535	93,269
Jun	0.9086	0.9110	+0.0059	0.9110	0.9085	147	6,399
Sep	-	0.9140	-	0.9140	-	206	603

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.6811	0.6786	-0.0019	0.6820	0.6770	19,915	38,423
Jun	0.6785	0.6778	-0.0024	0.6787	0.6763	20	565
Sep	-	0.6802	-0.0006	-	-	1	27

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.4918	1.4898	-	1.4924	1.4884	5,1036	40,890
Jun	1.4820	1.4820	+0.0012	1.4850	1.4820	448	1,431
Sep	-	1.4770	-	1.4800	1.4770	1	11
Dec	-	1.4740	-	1.4780	-	7	10

EMS EUROPEAN CURRENCY UNIT RATES

Jan 26	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.808628	0.774781	-0.001664	-4.19	6.65	28
Netherlands	2.19672	2.17911	-0.00093	-0.80	3.02	6
Germany	1.94964	1.94551	-0.00123	-0.21	2.41	2
Belgium	40.2123	40.2424	-0.0149	0.07	2.11	-1
France	6.53883	6.60547	+0.00474	1.02	1.16	-9
Portugal	192.854	195.230	-0.188	1.23	0.95	-8
Denmark	7.43679	7.56302	+0.01346	1.70	0.48	-12
Spain	154.250	157.629	-0.18	2.19	0.00	-15
NON ERM MEMBERS						
Greece	264.513	279.183	-0.014	5.55	-3.18	-
Italy	1793.19	1891.81	+1.53	5.50	-3.14	-
UK	0.786749	0.744376	+0.000643	-5.39	8.01	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Feb	CALLS Mar	CALLS Apr	PUTS Feb	PUTS Mar	PUTS Apr
1.400	9.02	8.80	8.77	-	0.05	0.24
1.425	6.56	6.49	6.86	-	0.13	0.57
1.450	4.15	4.32	4.75	0.01	0.48	1.74
1.500	2.07	2.57	3.15	0.33	1.14	2.02
1.600	0.63	1.28	1.99	1.39	2.35	3.25
1.525	0.10	0.53	1.16	3.26	4.04	4.89

Previous day's vol., Calls 5,629 Puts 5,288. Prev. day's open int., Calls 539,364 Puts 490,569

WORLD INTEREST RATES

MONEY RATES

January 26	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	7¼	7¼	7	6⅞	6⅝	7.40	5.25	-
week ago	7⅜	7⅛	7¼	6⅞	6½	7.40	5.25	-
France	6⅞	6½	6⅜	6¼	6⅛	6.20	-	7.75
week ago	6½	6½	6⅜	6	5⅝	6.20	-	7.75
Germany	6.13	6.15	5.85	5.65	5.35	6.75	5.75	6.00
week ago	6.05	6.15	5.80	5.60	5.30	6.75	5.75	6.00
Ireland	6¼	6	5⅞	5⅞	5⅞	-	-	6.75
week ago	5⅞	6	6⅛	5⅞	5⅞	-	-	6.75
Italy	8⅞	8⅞	8¾	8¼	8	-	8.00	8.92
week ago	9⅛	8⅞	8½	8⅜	7¾	-	8.00	8.92
Netherlands	5.56	5.46	5.24	5.02	4.86	-	5.25	-
week ago	5.56	5.46	5.19	5.00	4.81	-	5.25	-
Switzerland	4½	4⅜	4¼	3⅞	3¾	6.625	4.00	-
week ago	4⅜	4⅜	4¼	3⅞	3⅞	6.625	4.00	-
US	3	3⅛	3⅛	3⅜	3⅝	-	3.00	-
week ago	3⅛	3⅛	3⅛	3⅜	3⅝	-	3.00	-
Japan	2⅛	2⅛	2⅛	2	1⅞	-	1.75	-
week ago	2⅛	2⅛	2⅛	2	1⅞	-	1.75	-
■ $ LIBOR FT London								
Interbank Fixing	-	3⅛	3¼	3⅜	3¾	-	-	-
week ago	-	3⅛	3¼	3⅜	3¾	-	-	-
US Dollar CDs	-	2.97	3.04	3.16	3.48	-	-	-
week ago	-	2.97	3.07	3.20	3.52	-	-	-
SDR Linked Ds	-	3⅝	3⅝	3⅞	3⅞	-	-	-
week ago	-	3⅝	3⅝	3⅞	3⅞	-	-	-

3 Month US Treasury Bill Yield. 3.00 Prime Rate 6pc $ LIBOR Interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds)

EURO CURRENCY INTEREST RATES

Jan 26	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	7¼ - 7⅛	7¼ - 7⅛	7⅛ - 7	7 - 6⅞	6{13/16} - 6{11/16}	6⅝ - 6½
Danish Krone	6 - 5⅞	6⅝ - 6⅛	6½ - 6⅜	6⅜ - 6¼	6 - 5⅞	5⅝ - 5⅜
D-Mark	6⅛ - 6	6{1/16} - 6{1/16}	6⅛ - 6	5⅞ - 5¾	5⅝ - 5½	5{7/16} - 5{5/16}
Dutch Guilder	5⅝ - 5½	6{1/16} - 5{7/16}	5{7/16} - 5⅜	5¼ - 5⅛	5{1/16} - 4{15/16}	4{13/16} - 4{11/16}
French Franc	6½ - 6⅜	6½ - 6⅜	6½ - 6⅜	6{5/16} - 6{3/16}	6{1/16} - 5{15/16}	5{13/16} - 5{11/16}
Portuguese Esc.	10⅞ - 10⅝	10¾ - 10½	10⅞ - 10½	10⅝ - 10¼	10⅝ - 10¼	10{1/16} - 9{13/16}
Spanish Peseta	9⅛ - 8{15/16}	9⅛ - 8{15/16}	9⅛ - 8{15/16}	8{13/16} - 8⅝	8¼ - 8⅛	8⅛ - 8
Sterling	6⅛ - 5⅞	5½ - 5{7/16}	5½ - 5⅜	5{7/16} - 5⅜	5⅜ - 5¼	5⅜ - 5¼
Swiss Franc	4¼ - 4	4¼ - 4	4{3/16} - 4{1/16}	4 - 3⅞	3⅞ - 3¾	3{11/16} - 3{9/16}
Can. Dollar	4 - 3¾	3{15/16} - 3⅝	3{15/16} - 3{13/16}	3¾ - 3⅝	3{13/16} - 3{11/16}	3{13/16} - 3{11/16}
US Dollar	3{1/16} - 2{15/16}	3⅛ - 3	3⅛ - 3	3¼ - 3⅛	3⅜ - 3¼	3¾ - 3⅝
Italian Lira	10 - 8	8⅝ - 8½	8½ - 8	8½ - 8	8¼ - 7⅞	8⅛ - 7¾
Yen	2⅜ - 2¼	2{5/16} - 2{3/16}	2{3/16} - 2{1/16}	2¼ - 2⅛	2⅛ - 2{1/16}	2{1/16} - 2
Asian $Sing	3½ - 2½	3½ - 2½	3½ - 2½	4 - 3	4 - 3	4½ - 3½

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.07	94.07	-	94.09	94.05	19,159	126,162
Jun	94.59	94.61	+0.01	94.62	94.58	9,7445	68,435
Sep	94.96	94.97	+0.01	94.99	94.94	5,0123	39,258
Dec	95.24	95.26	+0.01	95.28	95.22	4,921	25,463

■ THREE MONTH EURODOLLAR (LIFFE)* $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.64	96.65	0.01	96.64	96.63	314	5322
Jun	96.34	96.35	0.01	96.34	96.33	271	3394
Sep	96.03	96.03	-0.01	96.04	96.02	79	965
Dec	95.65	95.67	0.02	95.65	95.65	11	454

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.39	94.39	0.01	94.41	94.36	20356	224784
Jun	94.82	94.85	0.04	94.87	94.79	39191	178190
Sep	95.13	95.16	0.03	95.17	95.10	18599	149409
Dec	95.36	95.36	0.01	95.39	95.31	12976	114206

■ THREE MONTH EUROLIRA INT.RATE FUTURES (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	91.95	91.84	-0.05	91.95	91.83	6931	46874
Jun	92.46	92.43	-0.05	92.48	92.43	4291	32591
Sep	92.84	92.83	-0.04	92.86	92.82	793	22676
Dec	93.06	93.07	-0.02	93.08	93.05	434	10219

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.19	96.19	-	96.22	96.17	4116	35538
Jun	96.48	96.47	-	96.49	96.45	1635	14181
Sep	96.57	96.59	-0.01	96.61	96.55	556	5723
Dec	96.59	96.60	-0.01	96.62	96.59	143	1895

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	93.96	93.95	-	93.97	93.94	987	12598
Jun	94.48	94.46	-	94.49	94.44	612	10192
Sep	94.84	94.82	-0.01	94.86	94.83	130	8305
Dec	95.11	95.12	-	95.14	95.11	55	5712

* LIFFE futures traded on APT

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	96.64	96.64	-0.01	96.64	96.63	24,876	422,093
Jun	96.34	96.35	-	96.35	96.32	51,513	382,083
Sep	96.04	96.03	-0.01	96.04	96.01	46,588	277,760
Dec	95.65	95.65	-0.01	95.65	95.63	38,550	206,075

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	96.94	96.94	-	96.94	96.94	1,475	25,686
Jun	96.68	96.67	-0.01	96.68	96.67	462	9,065
Sep	96.40	96.39	-0.01	96.40	96.39	133	2,955

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9425	0.18	0.62	0.93	0.04	0.02	0.02
9450	0.05	0.39	0.70	0.16	0.04	0.04
9475	0.01	0.21	0.49	0.37	0.11	0.08

Est. vol. total, Calls 7089 Puts 5165. Previous day's open int., Calls 188569 Puts 132331

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9600	0.20	0.49	0.62	0.01	0.02	0.03
9625	0.04	0.28	0.41	0.10	0.04	0.07
9650	0.01	0.11	0.24	0.32	0.14	0.15

Est. vol. total, Calls 0 Puts 200. Previous day's open int., Calls 1224 Puts 2835

UK INTEREST RATES

LONDON MONEY RATES

Jan 26	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6½ - 5	5⅝ - 5⅛	6½ - 5⅜	5½ - 5⅜	5⅜ - 5¼	5⅜ - 5⅜
Sterling CDs	-	-	5{13/32} - 5{11/32}	5{13/32} - 5{5/32}	5{7/32} - 5¼	5{5/16} - 5{5/32}
Treasury Bills	-	-	5⅜ - 5⅛	5 - 4{15/16}	-	-
Bank Bills	-	-	5{7/32} - 5{5/32}	5{7/32} - 5{1/16}	5 - 4{15/16}	-
Local authority deps.	6{1/16} - 5{13/16}	5½ - 5⅜	5½ - 5⅜	5{7/16} - 5⅜	5⅜ - 5¼	5⅜ - 5¼
Discount market deps.	6 - 5⅜	5½ - 5⅜	-	-	-	-

UK clearing bank base lending rate 5½ per cent from November 23, 1993

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1¾	4¼	4	3½	3½

Certs of Tax dep. under £100,000 is 2¼pc. Deposits withdrawn for cash 1pc.
Ave. tender rate of discount 4.8848pc. ECGD fixed rate Stg. Export Finance. Make up day December 31, 1993. Agreed rate for period Jan 26, 1994 to Feb 25, 1994, Schemes II & III 6.66pc. Reference rate for period Dec 1, 1993 to Dec 31, 1993, Schemes IV & V 5.375pc. Finance House Base Rate 5½pc from Jan 1, 1994

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.67	94.66	-0.01	94.69	94.66	7356	108037
Jun	94.89	94.87	-0.02	94.91	94.86	11684	116164
Sep	94.93	94.90	-0.03	94.94	94.90	2549	57889
Dec	94.92	94.89	-0.03	94.93	94.89	2062	70725

Traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9450	0.21	0.43	0.51	0.05	0.06	0.11
9475	0.06	0.24	0.33	0.15	0.12	0.18
9500	0.02	0.11	0.20	0.36	0.24	0.30

Est. vol. total, Calls 1300 Puts 1050. Previous day's open int., Calls 145267 Puts 133979

BASE LENDING RATES

	%		%		%
Adam & Company	5.5	Duncan Lawrie	5.5	* Roxburghe Bank Ltd is no longer authorised as a banking institution.	6
Allied Trust Bank	5.5	Exeter Bank Limited	6.5	Royal Bk of Scotland	5.5
AIB Bank	5.5	Financial & Gen Bank	6	●Smith & Williamson Secs.	5.5
●Henry Ansbacher	5.5	●Robert Fleming & Co	5.5	Standard Chartered	5.5
Bank of Baroda	5.5	Girobank	5.5	TSB	5.5
Banco Bilbao Vizcaya	5.5	●Guinness Mahon	5.5	●United Bk of Kuwait	5.5
Bank of Cyprus	5.5	Habib Bank AG Zurich	5.5	Unity Trust Bank Plc	5.5
Bank of Ireland	5.5	●Hambros Bank	5.5	Western Trust	5.5
Bank of India	5.5	Heritable & Gen Inv Bk.	5.5	Whiteaway Laidlaw	5.5
Bank of Scotland	5.5	●Hill Samuel	5.5	Wimbledon & Sth West	6.5
Barclays Bank	5.5	C. Hoare & Co	5.5	Yorkshire Bank	5.5
Brit Bk of Mid East	5.5	Hongkong & Shanghai	5.5		
●Brown Shipley	5.5	Julian Hodge Bank	5.5	● Members of British Merchant Banking & Securities Houses Association	
CL Bank Nederland	5.5	●Leopold Joseph & Sons	5.5	* In administration	
Citibank NA	5.5	Lloyds Bank	5.5		
City Merchants Bank	5.5	Meghraj Bank Ltd	5.5		
Clydesdale Bank	5.5	Midland Bank	5.5		
The Co-operative Bank	5.5	* Mount Banking	6		
Coutts & Co	5.5	NatWestminster	5.5		
Credit Lyonnais	5.5	●Rea Brothers	5.5		
Cyprus Popular Bank	5.5				

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

4 pm close January 26

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993/94 High	Low	Stock	Div	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
16	11½	AAR	0.48	3.0	529	287	16	15⅞	15⅞	
29⅜	12¾	A L Labs A	0.18	1.2	35	344	15⅝	15⅛	15¼	-¼
67¼	54⅝	AMP	1.60	2.5	22	1891	63⅝	63	63¼	-¼
72¾	55½	AMR			33	2086	68½	67¾	68½	+⅛
4½	1¾	ARX			17	222	4⅛	4	4	-⅛
58⅛	29⅞	ASA	2.00	3.7	35	711	53½	52½	53½	+⅞
30¾	22⅝	AbbtL	0.68	2.4	16	8834	28¾	28⅛	28½	+⅛
13	8¼	Abitibi Pr	0.50	4.1	7	13	12¼	12⅛	12⅛	
15⅝	8¼	Acptncetb			24	28	13½	13¼	13¼	-¼
38	25½	ACE Ltd	0.40	1.4	5	321	29	28⅜	28⅜	-½
12⅜	10¾	ACM Gvt In	1.08	8.5		546	12⅜	12¼	12⅜	+⅛
10⅛	9⅛	ACM GvtOpp	0.80	8.0		50	10	9⅞	10	
10⅝	8¾	ACM Gvt Sp	0.95	9.4		422	10¼	10⅛	10⅛	-⅛
12¼	10½	ACM Gvt Se	1.04	8.8		447	11⅞	11¾	11¾	
12¼	9⅝	ACM Mgn	1.08	9.4		427	11½	11⅜	11½	
9⅜	8⅝	ACM Managd	0.72	7.9		116	9¼	9⅛	9⅛	
12⅜	7¾	AcmeClv	0.44	4.3	12	203	10¼	10	10¼	+¼
11⅞	6⅜	Acme Elect			38	112	8⅛	7⅞	8⅛	+⅛
27⅞	18⅜	Acordia	0.44	1.8	13	23	24¼	24	24¼	
16	10⅜	Acuson			56	684	12⅝	12½	12½	
21¾	17⅞	Adams Expr	0.52	2.9	0	127	18¼	18⅛	18⅛	-⅛
66¼	45½	Ad Micro	3.00	5.9		44	51	50⅝	50⅝	+⅝
32¾	16¾	AdvMc	3.00	14.5	8	12601	21¼	20½	20⅝	+⅝
8⅛	6½	Advest Grp	0.16	2.4	10	122	6⅞	6¾	6⅞	+⅛
24¾	14¼	Advo Inc	0.06	0.4	121	687	18¼	17⅞	18¼	+¼
58½	41⅞	Aegon ADR	1.23	2.3	11	35	53⅞	53⅛	53¾	-⅝
66¼	43⅞	AetnaL	2.76	4.8	25	4290	58½	57¾	58	
34	24¾	Aflac	0.40	1.5	12	3440	26⅛	25⅞	26	+⅛
22⅛	16¾	Ahmanson	0.88	4.8	8	1038	18⅝	18⅜	18½	-⅛
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NYSE COMPOSITE PRICES

4 pm close January 26

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Price data supplied by Telekurs

NASDAQ NATIONAL MARKET

4 pm close January 26

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

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- X - Y - Z -

AMEX COMPOSITE PRICES

4 pm close January 26

AMERICA

Earnings data help Dow pick up after slide

Wall Street

After recording its biggest loss of the year the previous session, the Dow rallied yesterday morning in response to solid corporate earnings and firmer bond prices, *writes Frank McGurty in New York.*

By 1 pm, the Dow Jones Industrial Average was 12.10 ahead at 3,907.44, while the more broadly based Standard & Poor's 500 improved 2.08 to 473.00. In the secondary markets, the American SE composite edged 0.22 forward to 480.51 and the Nasdaq composite added 1.73 to 788.12.

Volume on the NYSE was heavy, with 182 shares traded by 1 pm. Advancing issues led declines, 1,102 to 878.

The negative tone which surfaced on Tuesday carried over to yesterday's opening, with no fresh economic readings available to sway sentiment. By midday, the benchmark 30-year government bond had drifted ⅛ higher to 98⅝, with the yield easing to 6.33 per cent.

Corporate earnings again captured the most attention. Among the cyclical issues which were hit by profit-taking the previous session, Bethlehem Steel rebounded $1 to $22⅝ on news of a strong fourth quarter. Caterpillar, up $⅝ at $99¼, and Alcoa, up $½ to $76¼, also contributed.

Among the other Dow components, Philip Morris confirmed expectations of lower operating income because of cigarette pricing cuts. But the news appeared to have already been factored into the share price, which edged $⅝ higher to $58¼.

Owens-Corning Fiberglass was marked up $1¼ to $42 after Merrill Lynch confirmed its favourable rating on the stock in anticipation of solid results in the final 1993 quarter.

American Express slipped $½ to $32¼ after Tuesday's gain, but Citicorp jumped $1¼ to $40⅝ and Chemical Bank added $1 to $35⅛ and JP Morgan $⅝ to $69¼.

General Dynamics, the defence contractor, instilled confidence over its future with the release of good operating results. The stock gained $1⅝ to $92⅝.

Investors were unimpressed by Compaq which beat forecasts with record fourth-quarter earnings and sales. Its share price slipped $1⅞ to $81½. Advanced Micro Devices added $⅝ to $20⅝ after Compaq revealed plans to begin buying AMD microchips.

International Business Machines, down $1½ at $56⅞, continued to slide amid uncertainty over its 1994 prospects.

Storage Technology climbed $1 to $34½ on news of fourth-quarter profit of 8 cents a share, against a loss of 24 cents a year ago.

Lotus Development jumped $1⅝ to $54½ after doubling net income in the final three months of 1993. But the positive sentiment failed to lift other Nasdaq technology issues. Intel shed $1⅞ to $63½ and Microsoft $⅞ to $84¼.

Canada

Toronto moved ahead at midsession, supported by strength in the precious metals and transportation sectors.

The TSE 300 composite index gained 9.39 to 4,465.60 at noon in turnover of 35.57m. Advances outpaced declines 304 to 283, with 341 issues holding their ground.

The precious metals sector *climbed 177.01 or 1.7 per cent* to 10,919.29 on strong gold futures prices while the transportation group *leapt* 77.94 or 1.9 percent, to 4,123.47.

SOUTH AFRICA

Industrial shares gathered pace towards the close while gold shares softened slightly. *The industrial index added 5* at 5,457, while the golds and overall indices lost 6 each to 1,952 and 4,756 respectively. Anglos gained R1 at R195.

EUROPE

Strong Roche advance takes Zurich to record

Apart from a downturn among the emerging markets, bourses were generally firmer, *writes Our Markets Staff*, improving *on good economic news* in Germany and seemingly impervious to a general strike threat in Spain.

ZURICH posted a second consecutive record close, as the market again took its lead from the strong performance of Roche. *The SMI index rose 24.8* to 3,091.3.

Roche certificates rose SFr145 or 2.1 per cent to SFr6,945 on short covering by foreign and domestic investors. The share has risen by a cumulative 3.8 per cent over the last two days, *amid renewed speculation* that the company is planning a share split.

In chemicals, Ciba-Geigy bearers fell SFr5 to SFr940 after reports that a German regional environment minister had called on the group to bear the cost of cleaning up northern German beaches after packets of one of its pesticides were washed *ashore.*

FRANKFURT was cheered by further good news on inflation from the states of Bavaria and Hesse and retrieved most of Tuesday's post-bourse losses, the Dax index closing just 7.61 lower on the session at 2,119.17.

The afternoon saw the Ibis-indicated Dax stage an eventual recovery to 2,128.66 after a period of weakness but Mr Thomas Nolten, of B Metzler in Frankfurt, *saw no message for* investors in this. "For several days," he said, "equities have simply followed movements on the bund market."

Influenced additionally by the movement of Dax futures, the market was currently a *traders' preserve*, said Mr Nolten, with investors on the sidelines awaiting German M3 figures. Inflated by special factors, M3 could rise by 7½ to 8 per cent for December.

Turnover fell from DM10.2bn to DM9.1bn. Lufthansa, which dropped DM9.50 last Friday on profit-taking, put it back on again to close at DM189 yesterday with dealers powerless to explain the airline's gains. Mr Nolten saw buyers around for the retailer, Asko, but no stories to explain why the stock was up DM40 to DM1,265 yesterday, and by DM155, or 14 per cent over the past three days.

FT-SE Actuaries Share Indices

Jan 26 — THE EUROPEAN SERIES

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1488.15	1488.99	1489.53	1490.66	1491.79	1489.63	1491.32	1490.98
FT-SE Eurotrack 200	1563.44	1564.10	1564.15	1565.31	1568.16	1562.06	1563.73	1562.49

	Jan 25	Jan 24	Jan 21	Jan 20	Jan 19
FT-SE Eurotrack 100	1485.10	1482.11	1471.66	1475.95	1488.93
FT-SE Eurotrack 200	1564.22	1568.02	1562.83	1560.50	1570.42

Base value 1000 (26/10/90): High/day: 100 - 1492.93; 200 - 1569.99 Low/day: 100 - 1487.82 200 - 1561.53

PARIS closed the day slightly firmer with even Bouygues, the construction group, adding FFr4 to FFr735 in spite of reporting disappointing results. *The CAC-40 index rose* 4.01 to 2,282.35.

Bouygues turned in its estimated results for 1993 after the close on Tuesday, showing a steeper decline then had been expected, owing to losses in its property division. Elsewhere in the sector Lafarge Coppée, up FFr5.30 to FFr474.00, said that it would not release its results until mid-March, but would make a comment on trading activity at a meeting today.

Moulinex, which is not included in the CAC-40, performed well after announcing that it hoped to break even in the nine months to the end of December. The shares gained FFr9 to FFr128.

MILAN picked up after a weak start, prompted by renewed political worries, as US investors returned as buyers later in the day. The Comit index rose 2.36 to 627.57.

Turnover remained high, in spite of a two hour failure of the electronic trading system, after Tuesday's all time record L895bn, which compared with average daily turnover of a mere L50bn during the summer of 1992.

Demand centred on the banks after BCI reported on Tuesday that parent company profits rose 1.7 per cent in 1993, in spite of big increases in tax payments and bad loan provisions. BCI rose L171 or 3.6 per cent to L4,890 and Credito Italiano added L107 or 4.9 per cent to L2,306.

Among smaller stocks attracting renewed attention, Alitalia was L48.60 or 6 per cent higher at L846.30 after the weekend management changes and indications that a more dynamic future is planned.

MADRID balanced an ongoing rally in bank stocks against the threat posed by today's general strike, coming out strongly on the credit side with the general index 5.46 higher at a new high of 348.40.

Turnover was virtually unchanged, a high Pta50.8bn. In banks, BBV rose by another Pta225 to Pta3,325 and Popular by Pta480 to Pta16,780.

AMSTERDAM *softened* slightly, the AEX index down 0.67 to 425.62, given weakness in the blue chips, such as Royal Dutch, off Fl 1.00 at Fl 210.80. The AEX index eased 0.67 to 425.62.

ING went in the opposite direction, rising Fl 1.30 to Fl 87.30, on news that it might be close to the sale of its UK insurance unit, Victory.

ISTANBUL dropped another 7 per cent, the composite index falling 1,598.57 to 21,128.64 as interbank overnight rates remained at 180 per cent, and the central bank twice sold dollars to try to reverse the fall of the lire. Incorporating rapid currency depreciation, the index has lost 35 per cent in dollar terms over the past 18 days.

ATHENS was unmoved by new interest rate cuts, tumbling 2.6 per cent profit-taking. The general index closed 29.48 lower at 1,114.01.

Written and edited by William Cochrane, John Pitt and Michael Morgan

ASIA PACIFIC

Hopes of compromise on reform lift Nikkei by 2.6%

Tokyo

Equities extended the recovery they began on Tuesday, advancing by 2.6 per cent as favourable remarks concerning a *potential compromise* on the government's political reform measures encouraged buying from futures and foreign investors in late trading, *writes Wayne Lionel Aponte in Tokyo.*

The Nikkei 225 average added 489.85 at 19,138.21, after *fluctuating between 18,759 and* 19,155. The Topix index of all first section issues ended 30.94 higher at 1,550.32.

According to domestic brokers, a vague comment from Mr Masaharu Gotoda, a leader in the ruling Liberal Democratic party (LDP), which was interpreted as supporting the nation's political reform *measures, sparked the late afternoon* buying.

Mr Gotoda was reported to have said that he has already decided how to vote when the measures reach the lower house. Furthermore, about 70 other members of the LDP have allegedly agreed to vote in favour of the bills, which the upper house of parliament rejected last week.

Futures-led buy orders entered the market aggressively late in the session, coupled with foreign purchases, which pushed the Nikkei average to its intraday high. Foreign investors remained bullish on Japanese equities, but *most domestic players watched* cautiously from the sidelines in spite of available evidence which now suggests otherwise.

Mr Norio Okutsu, manager of futures trading at Nikko Securities, said the day's gains marked a change in market sentiment, and he expects the buying to last for the rest of this week.

But, judging from the weak state of the domestic economy, below-average economic reports and the Bank of Japan's seeming unwillingness to cut the official discount rate, it was still too early for unbridled optimism.

Volume was estimated at 360m *shares*, compared *with* Tuesday's final 281m. Advances overwhelmed *declines by 968 to 114, with 93* issues unchanged. But in London the ISE/Nikkei 50 index closed 0.01 off at 1,231.11.

On the trading floor, computer equipment makers moved higher in tandem with the Nikkei average. NEC gained Y21 at Y980, and Fujitsu rose Y15 to Y920.

Steady buying lifted consumer electronic issues. Sony advanced Y100 to Y5,870, Pioneer Electronic moved Y80 higher to Y2,920 and Victor climbed Y30 to Y934.

Domestic brokers benefited from the day's gains, Nomura Securities rising Y50 to Y2,090, *Nikko Securities Y40 to Y1,230* and Daiwa Securities Y40 to Y1,490.

In Osaka, the OSE average finished 431.10 ahead at 20,832.32 in volume of 55.7m shares.

Roundup

Pacific Rim markets moved in sharply divergent directions. *Australia and Bombay were* closed.

HONG KONG fell 2.2 per cent, pressured by profit-taking and fears over Sino-British ties, although late demand lifted prices from their lows. The Hang Seng index was finally down 251.37 at 11,239.57 after touching 11,150.71.

Profit-taking pushed prices lower from the start amid concern over the future of Sino-British relations after China's warnings on Tuesday that it will not honour debts or contracts for Hong Kong's new airport after it takes over in the colony in 1997.

Hutchison Whampoa *slipped* HK$1.50 to HK40.25 as it denied market rumours that it planned to spin off part of Hongkong International Terminals, in which it recently increased its stake.

MANILA dropped 3.4 per cent as the market continued to lack buyers due to worries over looming oil price and wage rises, and talks between *the government and the* International Monetary Fund. The composite index fell 103.83 to 2,985.61.

SEOUL moved ahead for the fourth consecutive day as blue chip shares were favoured over low-priced counters. The composite index closed 2.28 higher at 894.34.

KUALA LUMPUR reversed a weak early trend to end higher across the board as the market staged a strong rebound after forced selling had dragged prices lower.

The composite index gained 17.51, or 1.7 per cent, at 1,029.31 after touching a low of 967.92 *in the morning as forced selling* on clients unable to meet margin calls sent share prices tumbling.

SINGAPORE recouped much of sharp early losses, helped by the rebound in the Malaysian market. The *Straits Times* Industrial index closed 0.58 easier at 2,255.47 after plunging more than 2 per cent in morning trade.

TAIWAN finished modestly firmer in turnover that continued to shrink as trading interest was diminished by the high level of outstanding margin loans and seasonally high money market interest rates. The weighted index put on 9.99 at 5,845.60.

BANGKOK staged a moderate rally near the end of a lacklustre session. *The SET index* finished 11.54 higher at 1,459.14 in light turnover of Bt11.9bn.

NEW ZEALAND closed firmer in reasonably active trade in spite of the holiday in Australia. The NZSE-40 capital index was up 3.42 at 2,284.11.

KARACHI *finished higher as* blue chip stocks posted fresh gains on institutional support. The KSE 100-share index closed 5.31 ahead at 2,284.88.

Warsaw leads the world in 1993

By George Graham

Poland and Hungary are to be added to the IFC's emerging stock market indices in April after turning in strong growth last year.

The Warsaw stock exchange, established in April 1991, was "far and away the best performing market in the world in 1993", said the IFC, a Washington-based affiliate of the World Bank.

The WIG index climbed from 1,040.70 at the start of 1993 to 12,349, while the IFC's price index showed a dollar gain of 717 per cent.

Turkey ranked second in the IFC's investable indices – stocks available to foreign buyers – advancing 211 per cent, while the Philippines, Indonesia, Thailand and Malaysia produced dollar rises of *more than 100 per cent.*

Zimbabwe's investable index of five stocks was introduced on *June 30*, but still managed to show a 102 per cent climb.

Hungary's investable index produced a more modest 67 per cent gain, but the IFC said that all the emerging markets it considers investable for foreign buyers produced better dollar returns last year than the S & P 500.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms: Jan 21 1994	Dollar terms: % Change over week	Dollar terms: % Change on Dec '93	Local currency terms: Jan 21 1994	Local currency terms: % Change over week	Local currency terms: % Change on Dec '93
Latin America							
Argentina	(11)	1,030.75	+4.3	+3.7	631,864.72	+4.2	+3.6
Brazil	(42)	328.51	+15.7	+41.2	184,916,136.9	+23.5	+62.0
Chile	(20)	627.67	+5.7	+13.8	1,084.14	+5.9	+13.7
Colombia[1]	(8)	741.79	+10.0	+15.1	1,070.16	+9.2	+15.4
Mexico	(56)	1,041.82	+7.7	+4.1	1,395.48	+7.7	+4.0
Peru[2]	(7)	129.69	+5.4	+7.2	171.29	+4.6	+7.7
Venezuela[3]	(8)	593.64	+0.4	+0.3	1,453.39	+0.4	+2.3
East Asia							
China[4]	(16)	133.07	-6.7	-10.9	146.25	-6.7	-10.9
South Korea[5]	(130)	117.06	-0.2	-0.9	124.69	-0.3	-0.7
Philippines	(11)	321.14	+6.8	-5.7	424.31	+7.6	-4.5
Taiwan, China[6]	(76)	131.71	+4.1	-2.6	130.53	+3.8	-2.4
South Asia							
India[7]	(61)	130.76	-4.5	+12.3	144.61	-4.5	+12.3
Indonesia[8]	(31)	126.07	+1.5	+1.1	144.53	+2.1	+1.5
Malaysia	(61)	273.28	-6.8	-19.4	276.22	-6.6	-18.0
Pakistan[9]	(8)	414.08	-0.8	+6.7	565.65	-0.7	+7.1
Sri Lanka[10]	(5)	203.31	+8.4	+14.7	219.45	+8.4	+14.9
Thailand	(52)	396.60	-8.7	-17.0	402.50	-8.6	-16.7
Euro/Mid East							
Greece	(17)	280.76	+3.7	+23.3	477.91	+3.8	+24.3
Jordan	(5)	169.74	-0.6	+2.5	246.88	-0.5	+3.1
Portugal	(16)	124.48	+3.1	+9.4	151.18	+3.4	+9.4
Turkey[11]	(31)	259.08	-5.1	+21.9	1,831.79	-8.7	+25.9
Zimbabwe[12]	(5)	195.69	-0.5	-3.2	244.63	-1.0	+14.5

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Aug 4 1989; (12)July 2 1993.

Mr Daniel Adams, IFC's vice-president for capital markets, commented that many of the top performing markets were in countries which had undertaken *significant* macro-economic and political reforms to help growth, including the privatisation of state-owned businesses and the liberalisation of trade, foreign investment and financial services.

"*International investor* confidence will continue to grow only with further improvements in regulatory regimes, transparent *market practices,* adoption of international audit and accounting standards, and *efficient clearing and settlement* arrangements," he said.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of lines of stock

	TUESDAY JANUARY 25 1994: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY JANUARY 24 1994: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 1993/94 High	1993/94 Low	Year ago (approx)
Australia (69)	177.04	0.4	175.69	124.39	161.33	166.26	-0.3	3.09	176.40	174.82	124.69	160.53	166.70	179.90	119.65	119.65
Austria (17)	187.97	0.5	186.54	132.08	171.29	171.11	0.7	0.93	187.13	185.45	132.27	170.28	169.96	191.82	137.41	137.41
Belgium (42)	163.63	0.9	162.38	114.97	149.11	146.28	0.4	3.93	162.22	160.76	114.66	147.61	145.70	166.01	138.95	141.95
Canada (107)	140.86	-0.6	139.79	98.97	128.36	133.86	-0.4	2.61	141.67	140.40	100.14	128.92	134.47	145.31	112.89	112.89
Denmark (32)	264.43	1.0	262.40	185.79	240.95	244.40	1.1	0.93	261.85	259.50	185.09	238.28	241.83	269.46	195.66	210.07
Finland (22)	147.63	2.0	146.50	103.73	134.53	174.46	1.6	0.58	144.75	143.45	102.32	131.72	171.68	147.63	65.50	70.06
France (99)	177.71	0.4	176.35	124.86	161.93	165.61	0.5	2.81	177.00	175.41	125.11	161.06	164.85	182.15	142.90	148.64
Germany (59)	131.40	2.1	130.40	92.33	119.74	119.74	2.3	1.75	128.65	127.49	90.94	117.06	117.06	142.38	105.56	109.20
Hong Kong (56)	471.18	-1.1	467.58	331.06	429.36	467.25	-1.0	2.33	476.22	471.95	336.62	433.36	472.15	506.66	225.77	237.18
Ireland (14)	203.70	-0.7	202.14	143.12	185.62	200.44	-1.0	2.78	205.21	203.37	145.05	186.74	202.40	207.53	129.29	142.22
Italy (68)	69.60	0.8	69.07	48.90	63.42	88.47	0.6	1.86	69.06	68.46	48.83	62.86	87.94	78.93	55.21	59.46
Japan (469)	137.34	2.0	136.29	96.50	125.15	96.50	1.4	0.85	134.69	133.48	95.21	122.57	95.21	165.91	101.64	101.64
Malaysia (69)	452.65	-5.8	449.19	318.04	412.48	461.67	-5.8	1.51	480.64	476.33	339.75	437.38	511.37	621.63	258.19	260.85
Mexico (18)	2481.52	0.3	2462.55	1743.57	2261.24	8424.38	0.3	0.60	2474.57	2452.37	1749.17	2251.81	8402.13	2481.52	1410.30	1682.58
Netherland (26)	201.96	-0.8	200.42	141.90	184.03	180.89	-0.6	2.93	203.62	201.80	143.94	185.30	182.30	203.67	153.15	156.84
New Zealand (14)	70.94	0.6	70.40	49.85	64.65	66.34	0.3	3.53	70.53	69.90	49.86	64.19	66.13	71.75	41.34	41.34
Norway (23)	194.67	-0.3	193.19	136.78	177.39	198.80	-0.2	1.28	195.21	193.46	137.99	177.64	199.28	195.63	138.48	144.21
Singapore (45)	332.56	-2.6	330.03	233.67	303.06	245.79	-2.8	1.68	341.40	338.34	241.32	310.67	252.74	378.92	213.03	213.03
South Africa (60)	252.34	1.6	250.41	177.30	229.94	242.57	0.8	2.38	248.35	246.12	175.55	225.99	240.74	280.26	156.20	156.65
Spain (42)	147.24	2.2	146.11	103.45	134.17	158.25	1.5	3.79	144.12	142.82	101.87	131.14	155.96	147.24	116.33	129.84
Sweden (36)	216.18	-1.9	214.53	151.90	197.00	256.80	-2.1	1.36	220.38	218.41	155.78	200.55	262.37	220.38	149.69	157.82
Switzerland (49)	168.37	0.4	167.09	118.30	153.43	153.39	0.8	1.42	167.66	166.15	118.51	152.56	152.19	169.15	109.14	115.22
United Kingdom (215)	210.83	-1.1	209.22	148.14	192.12	209.22	-1.0	3.44	213.18	211.26	150.69	193.99	211.26	213.29	162.00	173.93
USA (518)	191.39	-0.2	189.93	134.48	174.40	191.39	-0.2	2.73	191.82	190.10	135.59	174.66	191.82	193.24	176.29	179.95
EUROPE (744)	172.72	0.0	171.40	121.36	157.39	167.46	0.0	2.71	172.78	171.23	122.13	157.23	167.42	173.63	134.16	139.45
Nordic (113)	209.37	-0.6	207.77	147.11	190.79	217.61	-0.7	1.14	210.61	208.72	148.87	191.65	219.24	212.08	142.13	148.91
Pacific Basin (722)	150.15	1.3	149.00	105.50	136.82	108.93	0.8	1.13	148.16	146.83	104.73	134.83	108.05	166.80	106.79	106.79
Euro-Pacific (1466)	159.39	0.7	158.17	111.99	145.24	131.37	0.5	1.84	158.25	156.83	111.86	144.01	130.77	162.87	119.43	120.02
North America (625)	188.25	-0.2	186.81	132.27	171.53	187.42	-0.2	2.72	188.70	187.01	133.38	171.71	187.86	190.01	172.87	175.82
Europe Ex. UK (529)	149.25	0.7	148.11	104.87	136.01	143.17	0.7	2.23	148.25	146.92	104.79	134.90	142.18	150.17	115.10	118.64
Pacific Ex. Japan (253)	272.51	-1.4	270.43	191.47	248.32	251.63	-1.8	2.41	276.52	274.04	195.46	251.64	255.71	296.21	155.37	157.14
World Ex. US (1651)	161.51	0.7	160.27	113.48	147.17	134.66	0.4	1.85	160.40	158.96	113.38	145.95	134.10	163.94	120.63	121.17
World Ex. UK (1954)	166.62	0.5	165.35	117.07	151.83	147.02	0.3	2.03	165.76	164.27	117.17	150.84	146.54	168.69	136.48	136.83
World Ex. So. Af. (2109)	169.98	0.3	168.68	119.43	154.89	151.61	0.2	2.18	169.42	167.90	119.76	154.17	151.34	172.10	139.60	140.04
World Ex. Japan (1700)	189.51	-0.2	188.06	133.15	172.69	185.63	-0.2	2.66	189.95	188.24	134.26	172.85	186.26	191.28	159.44	161.56
The World Index (2169)	170.46	0.3	169.16	119.77	155.33	152.36	0.2	2.18	169.87	168.35	120.08	154.58	152.07	172.57	139.62	140.05

Latest Prices where unavailable for this edition.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jan 26 / Sch)

BELGIUM/LUXEMBOURG (Jan 26 / Frs.)

DENMARK (Jan 26 / Kr)

FINLAND (Jan 26 / Mkka)

FRANCE (Jan 26 / Frs.)

GERMANY (Jan 26 / Dm.)

ITALY (Jan 26 / Lire)

NETHERLANDS (Jan 26 / Fls.)

NORWAY (Jan 26 / Kroner)

SPAIN (Jan 26 / Pts.)

SWEDEN (Jan 26 / Kronor)

SWITZERLAND (Jan 26 / Frs.)

PACIFIC

JAPAN (Jan 26 / Yen)

AUSTRALIA (Jan 25 / AustS)

HONG KONG (Jan 26 / H.K.$)

MALAYSIA (Jan 26 / MYR)

SINGAPORE (Jan 26 / S$)

NORTH AMERICA

CANADA

TORONTO (Jan 26 / Can $)

4 pm close

MONTREAL (Jan 26 / Can $)

4 pm close

AFRICA

SOUTH AFRICA (Jan 26 / Rand)

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1993. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Wednesday, January 26, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Fujitsu Ltd	8.4m	920	+15	Oki Elec	4.3m	603	+7
Mitsubishi Heavy	7.3m	685	+21	Nitsuko Corp	4.1m	1,040	+30
Kawasaki Steel	6.5m	327	+11	NEC Corp	4.1m	980	+21
Daiwa Secs	5.2m	1,490	+40	Okumura Corp	4.1m	1,000	+40
Tsumura & Co	4.3m	1,580	-10	Hanwa	4.0m	675	+20

INDICES

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jan	2270.0	2285.0	-10.0	2290.0	2264.0	28,426	[illegible]
Feb	2283.0	2299.0	+10.0	2301.0	2277.5	7,2725	[illegible]
Mar	2294.5	2309.5	+10.0	2312.0	2290.5	2,119	22,674
Jun	2305.0	2305.0	+10.0	2305.0	2305.0	34	[illegible]

Open interest figures for previous day

** Sat Jan 22: Taiwan Weighted Price 5870.03, Korea Comp Ex 877.75. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 20 Industrials - 264.3, NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. † IBIS DAX after-hours index: Jan 26 - 2128.66 +37.88

US INDICES

Dow Jones	Jan 25	Jan 24	Jan 21	1993/4 High	1993/4 Low	Since compilation High	Since compilation Low
Industrials	3895.34	3912.79	3914.48	3914.48 (21/1/94)	3241.95 (20/1/93)	3914.48 (21/1/94)	41.22 (2/7/32)
Home Bonds	105.50	105.58	105.61	109.77 (18/10/93)	103.49 (11/1/93)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	1808.64	1818.94	1814.43	1834.81 (14/1/94)	1453.84 (4/1/93)	1834.81 (14/1/94)	12.32 (8/7/32)
Utilities	217.97	217.11	219.75	256.46 (31/8/93)	217.11 (24/1/94)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3937.55 (3947.68) Low 3863.82 (3882.11) (Theoretical♦)
Day's high 3920.67 (3934.46) Low 3887.18 (3902.86) (Actual♦)

Standard and Poors	Jan 25	Jan 24	Jan 21	1993/4 High	1993/4 Low	Since compilation High	Since compilation Low
Composite ‡	470.92	471.97	474.72	475.27 (10/1/94)	429.05 (8/1/93)	475.27 (10/1/94)	4.40 (1/6/32)
Industrials	548.98	550.49	553.38	553.49 (10/1/94)	496.48 (26/4/93)	553.49 (10/1/94)	3.62 (21/6/32)
Financial	44.61	44.63	44.85	48.40 (28/9/93)	39.29 (8/1/93)	48.40 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	261.13	261.75	263.12	263.23 (20/1/94)	236.21 (8/1/93)	263.23 (20/1/94)	4.46 (25/4/42)
Amex Mkt Val	480.59	483.37	484.74	484.81 (20/1/94)	395.84 (8/1/93)	484.81 (20/1/94)	29.31 (9/12/72)
NASDAQ Comp	785.39	790.65	794.28	794.28 (21/1/94)	645.87 (26/4/93)	794.28 (21/1/94)	54.87 (31/10/72)

■ RATIOS

	Jan 21	Jan 14	Jan 7	Year ago
Dow Jones Ind. Div. Yield	2.59	2.62	2.65	3.18
	Jan 19	Jan 12	Jan 5	Year ago
S & P Ind. Div. yield	2.34	2.35	2.38	2.58
S & P Ind. P/E ratio	28.13	28.07	27.72	26.85

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	471.45	471.15	-0.45	471.60	471.15	53,482	181,165
Jun	-	472.55	-1.05	-	-	305	4,993
Sep	-	473.85	-1.10	-	-	71	849

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

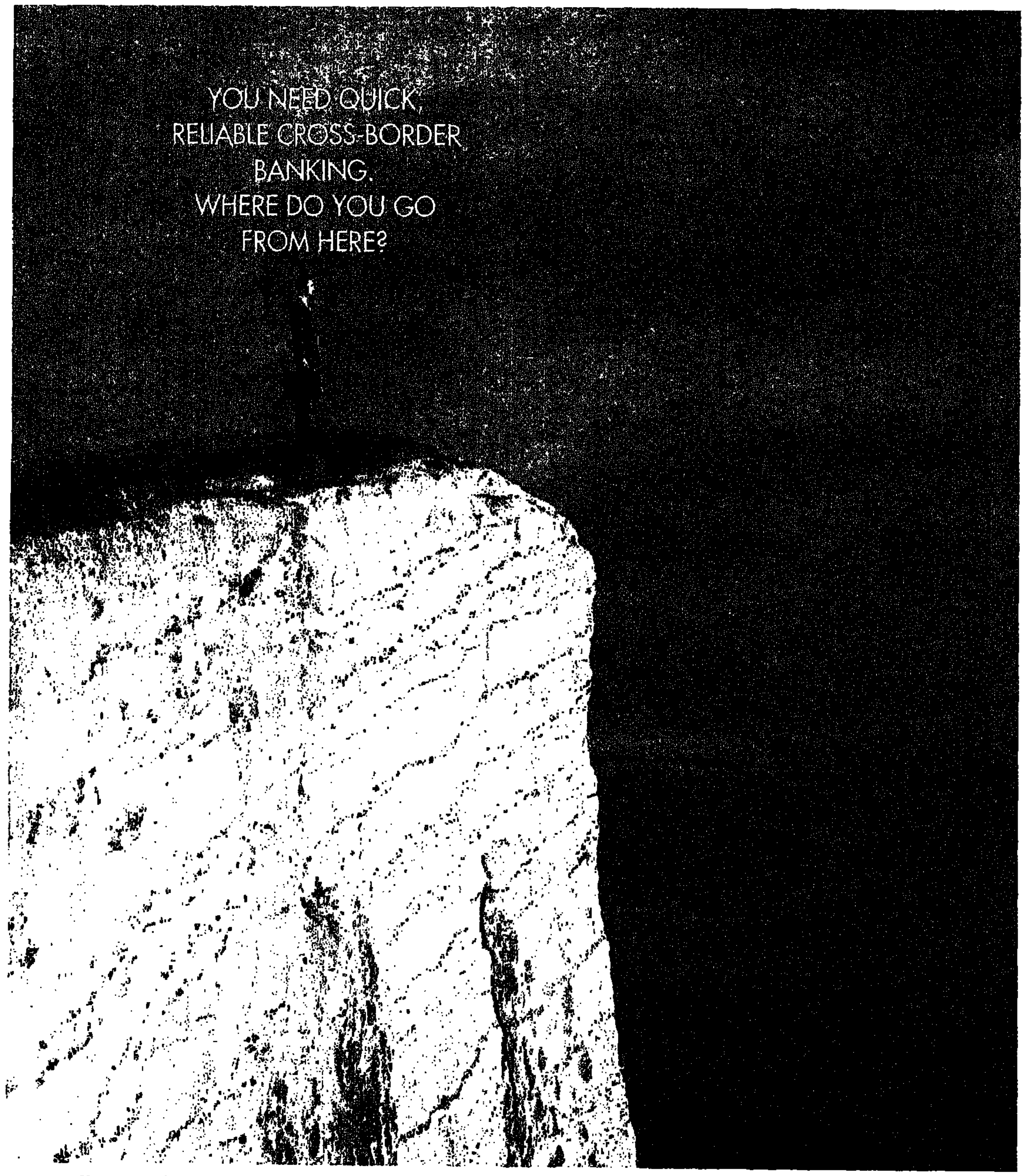
Tuesday	Stocks traded	Close price	Change on day
[illegible]	10,129,200	58¼	[illegible]
Am Express	7,072,900	32¼	+2⅛
[illegible]	6,295,600	12⅝	...
[illegible]	6,147,700	41½	-10
Unisys	4,796,700	13¼	[illegible]
[illegible]	4,420,500	68⅛	-1⅝
[illegible]	4,101,200	35⅝	+⅜
[illegible]	3,022,400	7⅞	[illegible]
East Kodak	2,316,200	42½	+1¼
K Mart	2,272,400	19⅜	...

■ TRADING ACTIVITY

● Volume (million)

	Jan 25	Jan 24	Jan 21
New York SE	326.089	296.901	345.886
Amex	17.864	18.224	20.497
NASDAQ	352.351	303.884	349.432
NYSE			
Issues Traded	2,738	2,747	2,742
Rises	866	906	973
Falls	1,215	1,201	1,061
Unchanged	657	640	708
New Highs	66	115	132
New Lows	57	35	24

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telerate) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.



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FINANCIAL TIMES

• Trade mood brightens • Europe's anxious truckers
• UK agents stymied • China and Argentina

FT EXPORTER

WINTER 1994

■ COMMENT

A muted sigh of relief on Gatt

Exporters see brighter prospects than a year ago. But growth is generally slow and it is too soon to celebrate, says Emma Tucker


President Clinton and EU Council president Jacques Delors: the worst is probably over

Exporters across the globe face brighter prospects this year than they did at the beginning of the last. But after a year of feeble growth in the industrialised world, that is not saying much.

Growth in the world's 24 richest countries amounted to a meagre 1 per cent last year, as much of Europe and Japan struggled with recession and the US emerged only slowly from its downturn.

Industries struggling to sell their products into sluggish markets may find little comfort in the latest Organisation for Economic Co-operation and Development (OECD) forecast for output. It predicts that overall growth for the industrialised world should reach just 2 per cent.

However, the worst is probably over. While activity in Japan looks likely to continue its decline, an increasingly *strong expansion is taking place in the US;* European Union countries have seen the worst of their recessions, and moderate recoveries are continuing in the UK, Australia and New Zealand.

The economic outlook for growth in eastern Europe has also improved – economic recovery in the Czech Republic and Poland is gaining strength.

Furthermore, economists are forecasting that the improvement in the US economy, together with post-Nafta investment in Mexico, will raise the average growth rate in Latin America. They are also optimistic about a continued strong expansion in Asia. Analysts at JP Morgan believe that so-called "emerging" Asia will grow by 7.5 per cent this year in spite of the authorities' attempts to cool China's overheated economy.

More important: the Gatt deal, agreed in December, will bring benefits to almost everybody, even if these are not immediately recognisable in the short-term.

The OECD has estimated that the agreement on the Uruguay round deal could increase the world's welfare to the tune of \$270bn (at current prices) by 2002. This is just one of several analyses – including others from the World Bank, and the secretariat of the Gatt – which have estimated the increase resulting from the deal, in global economic welfare, at between \$213bn and \$274bn by 2002, roughly ¾-1 per cent of gross global income.

On inflation, the global outlook is generally good. The trade agreement – and the extra competition it brings – seems likely to help shore up gains already made on inflation in the industrialised world. According to the OECD, inflation in 20 of its 24 member countries has fallen to 4 per cent or less, and in most of these countries it is below 3 per cent.

Although the OECD has pointed out that, in Europe, the rate of price increases in Germany could remain stubborn, it forecasts that the trend in inflation will be downwards. Excluding Turkey, inflation in the area is expected to fall to 2¼ per cent by 1995.

The outlook for employment, however, is bleak, especially in Europe. The OECD expects that the European unemployment rate will rise to 11.5 per cent next year (when more than 22m people will be out of work) from 8.6 per cent in 1991 (when 16.5m Europeans were unemployed).

Perhaps the brightest spot for the world economy remains the successful completion of the Uruguay trade deal and the banishment of fears that countries will revert to a new round of trade protectionism.

But while almost all global forecasters concur that the trade liberalisation measures agreed in the round will be good for the world economy, no one knows precisely what the measures will mean. Many analysts, for example, believe that even the top end of the forecasts – which show an increase in global economic welfare of \$274bn by 2002 – underestimate the likely benefits of the trade deal.

First, the studies ignore the stimulus to trade in services, which already amounts to 21 per cent of world trade.

Second, the estimates assume that the status quo would have been maintained if the Uruguay round had failed.

Last, they ignore the greater international transfer of technology and business practices. Thus the benefits to the world economy from the completion of the round could prove to be significantly higher.

There is also some debate about where and to whom the benefits will accrue. An OECD study looked at the different areas affected by the trade deal and came up with the following conclusions:

● **Agriculture:** removing 30 per cent of the tariffs and subsidies for agriculture could yield gains of \$190bn, with the 24 OECD countries accounting for \$120bn of the net gains, and the developing and formerly centrally planned countries benefiting by \$70bn.

In the final deal, it was agreed that trade

□ Continued on Page 4

□ GUEST COLUMN: DR GUNTHER REXRODT

Now for a world trade body

Dr Günther Rexrodt, German minister of economics, says the world trade body agreed on by the Gatt negotiators must now be given real meaning and purpose

The successful conclusion of the Uruguay Round negotiations marks another big step on the road to trade liberalisation and a considerable strengthening of the multilateral trading system, thanks particularly to the agreement to establish a new World Trade Organisation (WTO).

Attention now focuses on other issues of importance for trade policy that have not yet been dealt with fully but that nevertheless require consideration.

Some results of the Uruguay Round were disappointing. For example, the framework agreement on trade in services was undeniably a negotiating success. But if we look at the tertiary sector's extraordinary growth potential, the overall negotiating results for initial commitments on financial services, audiovisuals, basic telecommunications, and maritime transport were disappointing. For civil aircraft and steel, the multilateral agreement sought by negotiators was not attained.

These issues not resolved, either partly or fully, by the negotiations will now have to be conducted under the new WTO. Meanwhile, meaning and purpose must be instilled into the WTO.

On the internal front, the main priority is to work out an integrated dispute settlement procedure; on the external front, the main effort must be to intensify relations with other international institutions such as the International Monetary Fund and the World Bank.

Because of the heavy agenda that already faced negotiators, the inclusion of additional questions of relevance to trade would have overburdened the Uruguay Round. One of the most important of these topics is the trade-environment interface. International trade and trade policy are interrelated to the environment and environmental protection policy in a number of areas.

Environmental protection policies can distort trade and, conversely, commerce can affect the quality of our natural surroundings. Furthermore, many of a given region's environmental problems can no longer be addressed without regard to similar problems in other regions. Air and water pollution, noise, waste, the endangering of rare animal and plant species, and the destruction of the ozone layer are ecological problems whose impact transcends national boundaries and are most likely to have global significance. On the other hand, there is also the danger of environmental protection measures being abused in order to protect trade.

Scant progress has been made to harmonise measures within worldwide environmental protection agreements. International organisations such as the OECD, Gatt, and Unctad, however, are in the process of analysing interface problems, although they have yet to arrive at common results or conclusions.

In the absence of binding common rules, the Gatt procedure for settling disputes in this area is in its infancy. With its official commitment to protecting the environment and its broad range of functions, the WTO has a solid foundation for this discussion. The problems should now be addressed in the WTO without delay within an agreed working programme laid out on the basis of the success achieved in the Uruguay Round.

Previous Gatt practice and negotiations in the Uruguay Round have shown that not all trade-relevant problems can be covered by the trade policy rules already on the books. With the increasing internationalisation of markets, there is an increased overlapping of policies on trade and competition in the international context. We are particularly challenged by efforts by companies to restrict competition; and we are faced by government toleration of such practices.


Günther Rexrodt: consultations on the next stage must start as soon as possible

Private restraints on competition such as orderly marketing, managed trade, export cartels, mergers to attain commanding market positions, and displacement strategies by industrial targeting or laser beaming can lead to serious trade barriers, thus undermining the value of agreements and concessions made under the Gatt. This can generate political pressure to react to such competitive distortions by trade policy measures.

Conversely, the employment of legal trade policy instruments such as safeguards, anti-dumping measures or countervailing duties can distort competition and restrict trade at both the national and international level if applied contrary to competitive principles.

If we are to prevent or overcome drawbacks for companies in the European Union and elsewhere, the following questions must be dealt with:

● how can the interest of exporters or investors be protected in the face of conduct that is contrary to competition?

● how can a systematic application of existing national competition rules be assured and improved so that the present multilateral trading system may be made even more open and conducive to competition and use of trade policy measures for competitive reasons may be prevented?

● should international rules for competition be established, and, if so, what elements should they incorporate?

The demand for a discussion of social standards continues to be voiced. This topic has not yet been addressed in trade policy bodies; it has, however, been the topic of particular attention by UN bodies. Since a link between social standards and international trade is undeniable, the discussion will also have to become part of the agenda of trade policy bodies. Developing countries suspect that calls for social standards mask protectionist attempts to reduce the advantages conferred on them by developing status. Since such discussions are politically sensitive, it would be prudent to proceed with caution.

The problems listed here are of political interest to many participants in the multilateral trading system. It is most important to begin consultations on them as soon as possible at the international and multilateral level and from the very outset to acknowledge the interdependence between trade, the environment, competition, and social standards.

FORFAITING RATES

	Period years	DM %	US$ %
AMERICAS			
Argentina	5.0		*
Brazil	5.0		*
Canada	7.0	5 11/16	5½
Chile	5.0	7½	7 1/16
Colombia	5.0		*
Mexico	5.0	9¼	8 13/16
Uruguay	1.0		
US	7.0	5 5/16	5⅜
Venezuela	1.0		
EUROPE			
Austria	7.0	5 11/16	5½
Belgium	7.0	5 11/16	5½
Cyprus	5.0	6¾	6 5/16
Czech Republic	5.0		
Denmark	5.0	5⅝	5 5/16
Finland	5.0	6¼	5 13/16
France	7.0	5 5/16	5⅜
Germany	7.0	5 5/16	5⅜
Greece	3.0	6 13/16	5⅞
Hungary	5.0	9½	9 1/16
Iceland	3.0	6 1/16	5⅛
Ireland	5.0	5¾	5 5/16
Italy	5.0	6	5 5/16
Kazakhstan	0.5		*
Malta	5.0	7¼	6 13/16
Netherlands	7.0	5 11/16	5½
Norway	5.0	6½	6 1/16
Poland	5.0		
Portugal	7.0	6 1/16	5⅞
Romania	1.0		
Slovenia	5.0		
Spain	7.0	5 11/16	5½
Sweden	5.0	6	5 5/16
Switzerland	7.0	5 11/16	5½
Turkey	5.0		
UK	7.0	5 5/16	5⅜
AFRICA			
Morocco	5.0	10	9 5/16

	Period years	DM %	US$ %
South Africa	3.0	8 5/16	7⅝
Tunisia	2.0	7 1/16	6 1/16
Zimbabwe	1.0		*
ASIA & AUSTRALASIA			
Australia	5.0	6	5 5/16
China	5.0	7	6 5/16
Hong Kong	5.0	6	5 5/16
India	2.0	7 13/16	6 5/16
Indonesia	5.0	9	8 5/16
Japan	7.0	5 13/16	5¾
Malaysia	5.0	6	5 5/16
Nepal	0.5	8⅝	6⅝
New Zealand	5.0	5¾	5 5/16
Pakistan	3.0	9 5/16	8⅝
Singapore	7.0	5 11/16	5½
S Korea	5.0	6¼	5 13/16
Sri Lanka	1.0	8¾	7 5/16
Taiwan	7.0	6 1/16	5⅞
Thailand	5.0	7	6 5/16
Vietnam	0.5	10⅝	8⅝
MIDDLE EAST			
Bahrain	5.0	6¾	6 5/16
Egypt	3.0		*
Kuwait	5.0	6¾	6 5/16
Oman	5.0	6¾	6 5/16
Qatar	5.0	6¾	6 5/16
Saudi Arabia	5.0	6¾	6 5/16
U.A.E.	5.0	6¾	6 5/16
LIBOR			
6 months		5⅝	3⅝
1 year		5¼	3 13/16
2 years		5	4 5/16
3 years		5	4¾
4 years		5 5/16	5 1/16
5 years		5¼	5 5/16

These indications are shown on a basis of discount to yield, assuming six monthly repayments. Three year transactions are calculated with an average life of 1¾ years, five year arrangements with a life of 2¾ years. Indications apply only to immediately available business. Commitments of up to six months call for a slight rate increase. The standard commitment fee is 0.1 percent per month, but can vary according to the risk. * Subject to negotiation - No information available.

Rates provided by Indosuez Aval Ltd 17 St Helen's Place, London, EC3A 6DE Tel 071 522 0034

FT EXPORTER 22

Exporters' calendar of general and specialist trade fairs in 1994

■ **GENERAL TRADE FAIRS**
Feb. 09-12,94 Barcelona FIB
Jun. 04-12,94 Bologna LA FIERA
Aug. 27-31,94 Frankfurt HERBST

■ **AGRICULTURAL (INC RELATED MACHINERY)**
Feb. 13-17,94 Paris INTERSIMA
Aug. 13-21,94 Nitra AGROKOMPLEX
Nov.7-12,94 Tashkent AGROTECH

■ **AIRCRAFT AND AEROSPACE**
Feb.22-27,94 Singapore AEROSPACE
Apr.20-24,94 Johannesburg AVIATION
May.28-Jun.05,94 Berlin ILA (Aerospace)
Nov.22-26,94 Guangzhou AIRPORT & AVIATION

■ **AUDIO VISUAL EQUIPMENT**
Mar.21-24,94 Las Vegas NAB (Broadcasting)
Oct.10-14,94 Cannes MIPCOM (Film & Programme Marketing)
Oct.29-Nov.06,94 Stockholm VISION (Radio & TV)

■ **BOOKS AND PUBLISHING**
May. 04-08,94 Geneva BOOKS/PRESS
May.25-27,94 Dortmund BIBLIOTHECA (Library Trade)
Nov. 1-11,94 Sharjah Book Fair

■ **BUILDING/CONSTRUCTION EQUIPMENT AND SERVICES**
Apr. 19-24,94 Paris INTERMAT
May 16-19,94 Abu Dhabi BUILDMAT
Jun.07-10,94 Hong Kong IBS
Oct.27-30,94 Bangkok BUILDTECH
Nov.22-26,94 Lyon EUROBAT

■ **CHEMICALS, COSMETICS AND PHARMACEUTICALS**
Apr.22-25,94 Bologna COSMOPROF (Perfumery & Cosmetics)
Jun.05-11,94 Frankfurt ACHEMA (Chemical Engineering)
Jun. 16-18,94 Singapore PHIA
Sep. 16-21,94 Beijing Chemical Industry

■ **CLOTHING, FASHION AND FOOTWEAR**
Feb. 13-15,94 New York PREMIER COLLECTIONS
Feb. 19-22,94 Munich MODE WOCHE
Mar.06-08,94 Dusseldorf IGEDO(Fashion Trade)
Mar.18-21,94 Dusseldorf GDS (Shoe Trade)
Jun.01-03,94 Amsterdam JOBFASHION (Company Clothing)
Jul.02-04,94 Paris MODE ENFANTINE
Sep.10-12,94 Lyon MODE CITY (Swimwear & Lingerie)
Sep.24-25,94 Oslo SKOMESSE (Shoe Trade)
Oct. 11-13,94 Tokyo TOP LOOK
Oct.19-21,94 Hong Kong INTERSTOFF ASIA
Nov.16-18,94 Bologna LINEAPELLE

■ **COMPUTERS, OFFICE MACHINERY AND TELECOMS**
Feb.08-11,94 Paris IT FORUM
Feb. 15-17,94 Boston NETWORKS EXPO
Mar.01-04,94 Paris MICAD (CAD/CAM)
Mar.08-11,94 Sydney PERSONAL COMPUTERS
Mar.16-23,94 Hanover CEBIT
Mar.27-31,94 Riyadh SAUDICOMPUTER
May.31-Jun.03,94 Singapore NETWORKASIA
Jun.13-15,94 Tel-Aviv COMPUTAX

■ **DISPLAY AND SHOP EQUIPMENT**
Apr. 15-18,94 Padua INTERSHOP
Sep.27-29,94 Chicago EXHIBIT EXPO
Oct.24-28,94 Paris EQUIPBAG

■ **ELECTRICAL/ELECTRONIC ENGINEERING**
Jun.23-25,94 Munich ELTEC
Jul. 19-21,94 San Francisco SEMICON
Sep.05-08,94 Kuala Lumpur ELENEX
Oct. 12-17,94 Seoul KES

■ **FOOD & DRINK/CATERING**
Feb.26-Mar.03,94 Paris EUROPAIN (Baking)
Feb.26-Mar.03,94 Paris INTERGLACES (Ice-Cream)
Apr.19-21,94 Brussels ESE (Seafood)
May 04-09,94 Zurich MEFA (Butcher Trade)
Jul.30-Aug.05,94 The Hague VEGETARIAN
Sep. 18-22,94 Munich IMEGA (Food & Catering)
Nov.24-27,94 Zurich KASE (Dairy Trade)

■ **HOUSEHOLD FURNISHING AND EQUIPMENT**
Feb.02-05,94 Salzburg TEXBO
Feb.19-23,94 Frankfurt AMBIENTE
Apr.08-10,94 Chicago KITCHEN/BATH INDUSTRY
Apr.19-22,94 Tokyo LIFESTYLE
Sep. 18-21,94 Paris QUOJEM
Oct. 1-3,94 Leipzig COMFORTEX
Oct.26-29,94 Singapore DECOEXPO

■ **JEWELLERY AND GIFTWARE**
Feb.11-14,94 Milan MACEF
Sep.02-06,94 Paris PAAS
Sep. 17-19,94 Leipzig CADEAUX
Nov. 17-20,94 Bahrain JEWELLERY ARABIA

■ **MECHANICAL ENGINEERING**
Feb.01-04,94 Stuttgart FLUID TRANS
Apr.25-29,94 Paris MECANELEM
Oct.11-15,94 Leipzig MEBA

■ **MINING**
Feb.27-Mar.03,94 San Francisco MINERAL/METALS/MATERIALS
Mar.11-14,95 BSahrain MEOS (Oil Show)

■ ***PRINTING AND STATIONERY***
May 13-16,94 Thessaloniki GRAPHIS
Aug.30-Sep.03,94 Leipzig BUGRA

■ **SAFETY, FIRE CONTROL & SECURITY**
Feb. 07-09,94 New Delhi FIRE INDIA
Mar.21-24,94 Ghent EXPLORISK
Mar.29-31,94 Johannesburg SECUREX
Apr.19-22,94 Kuala Lumpur DEFENCE SERVICES
Oct.20-22,94 Modena AMBIENTE LAVORO (Safety/Hygiene at Work)

■ **SCIENTIFIC AND MEDICAL**
Feb.20-25,94 Perth GEOPHYSICS
Nov. 16-19,94 Dusseldorf MEDICA

■ **SHIPS AND BOATS**
Feb. 11-20,94 Helsinki BOAT SHOW
Feb.26-Mar.06,94 *Rimini BOAT SHOW*
Mar. 17-20,94 Budapest BOAT SHOW
Mar.23-27,94 Istanbul BOAT/WATER LEISURE
Sep. 06-11,94 Amsterdam BOAT SHOW

■ **SPORTS EQUIPMENT**
Mar.29-Apr.3,94 Singapore GOLF ASIA
Nov.10-13,94 Bilbao CYCLE SHOW

■ **TOYS**
Feb.03-09,94 Nuremburg TOY FAIR
Aug.19-21,94 Dusseldorf ATARI (Electronic Games)
Sep.29-Oct.3,94 Seoul SITOY

■ **WATER AND AIR TREATMENT**
Sep.26-30,94 Amsterdam AQUATECH
Oct.18-21,94 Lyon POLLUTEC
Oct.26-29,94 Sinsheim AWL TECH
Nov.7-10,94 Manila Water Industry

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FT EXPORTER 3

□ MARKET PROFILE: **ARGENTINA**

The mood and rhythm improve

Successful policies are making Argentina an increasingly attractive market for imports with which to rebuild its shattered industries, writes John Barham. But it is not yet out of the wood

Until very recently, Argentina had a nightmare economy. But three years of rigidly orthodox economic policies have transformed it into a star performer, with high growth rates and low inflation.

As a result, Argentina has become a rapidly-growing market for foreign goods that range from chocolates to computer-controlled machine tools. Last year Argentina imported an estimated $16bn-worth of goods, double its imports two years earlier. Even so, imports still only account for 6 per cent of GDP, which suggests that sales opportunities for foreign companies should continue multiplying.

Growth seems set to continue for several years, driven by decades of repressed consumer demand and revived investment rates. The government expects the economy will expand by one-quarter in the period 1993-1995. Companies are only slightly less optimistic.

Argentina is having to rebuild its obsolete industry and public utilities from the ground up. The public sector and privatised companies alone are to invest at least $30.04bn between 1993-95.

Argentina is therefore importing machine tools, computers and work stations. Packaging equipment for the food and drinks industries is expected to grow steadily. Demand for consumer electronics and white goods is also strong. The local car industry, once a temple of import substitution, in some cases now imports 90 per cent of its components. Privatised companies have become big buyers of everything from aircraft to gas meters.

Gemplus, a medium-sized French company that makes smartcards, signed a three year contract in May to supply Telecom Argentina, the privatised telephone operator, with phonecards. Sales in May-December 1993 were FFr30m, 4 per cent of Gemplus's worldwide sales. It now sells 1m cards a month in Argentina and an unspecified quantity through another privatised telephone company, Spanish-owned Telefonica de Argentina, which buys its cards from Gemplus in France.

Last August Gemplus opened an office in Buenos Aires, its first in Latin America. It will be followed by offices in Caracas and Mexico City. This year it plans to start selling smartcards to the private health insurance industry, banks and operators of toll roads. Traditional obstacles, such corrupt and inefficient bureaucracies, are less of a problem now, following President Carlos Menem's deregulation and privatisation policies. Mr Bertrand Moussel, Gemplus sales director for Latin America, says "Argentina is not a paradise but it does have below average problems in fraud and corruption. Transport and customs clearance are not a problem."


The rewards of discipline: tango dancers in Buenos Aires' St. Elmo district (Picture: Glyn Genin)

Competition, though, is fierce. Mr Frank Behrendt, is president of Buenos Aires-based Behrendt-Mattel, a $35m company that represents European and US engineering companies including Krupp, Decker-Maho-Gildemeister and Cincinatti Milacron. He says: "It's a free for all. [Companies] are breaking their heads to make a deal. There are discounts of 40 per cent for machine tools."

Bidding even for small orders is intense. Mr Behrendt says few orders from Argentine companies exceed $300,000.

Nearly all Argentina's public companies have now been privatised. Hardnosed private managements no longer pay the suspiciously above-market prices paid by government officials. Privatised companies say they have won price cuts of about 30 per cent.

Financing has become a crucial sales factor. With the return of stability to Argentina and the signing last year of a foreign debt-reduction plan, country risk premiums have declined sharply and maturities extended.

Trade finance rates are usually set by

□ Continued on Page 4

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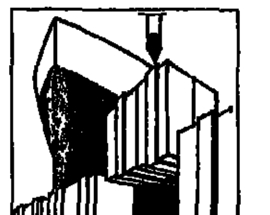

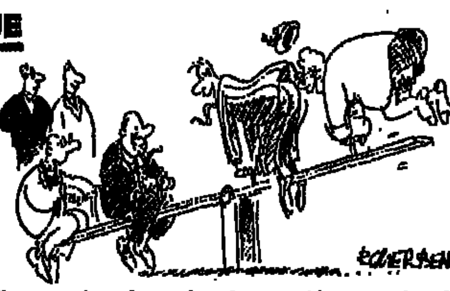

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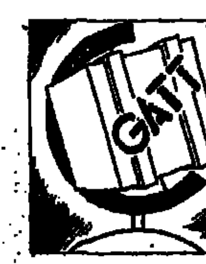
see Swings and roundabouts page 6

■ **SPECIAL REPORT**

Countertrade and bartering in the post-Communist era



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MARKET PROFILE: CHINA

Financiers take the long view

The economy of mainland China risks overheating, raising questions about debt levels and its ability to meet payments. But the prospects of the world's largest nation are too important to ignore and financiers are being remarkably pragmatic over credit cover requests by China's suppliers. **Jon Marks** reports

Financing Chinese projects and capital goods imports has become a priority for export credit agencies (ECAs) whose support is critical for would-be exporters to this major growth market.

With a 14 per cent rise in gross national product in the first half of 1993, and similar levels of growth expected in 1994, ECAs and banks are well aware that the Chinese economy risks overheating. They are watching carefully to see if payments can be kept under control, given that they estimate China's international debt at $70bn-$80bn and they are further concerned by a lack of clarity in local debt data.

But few banks shied away from the Chinese market in 1993 due to concerns about the future. "With a population of 1.2bn people it is a market you have to look at very seriously," says David Moleshead, head of export finance at Banque Paribas in London.

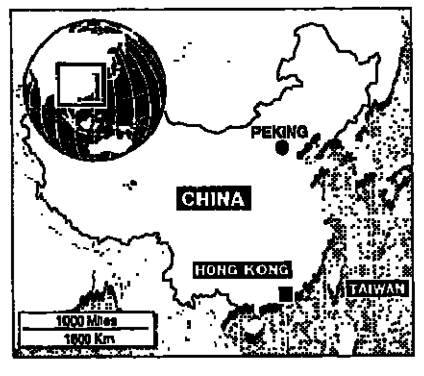
Exporters' enthusiasm has not been dampened by fears of overheating; by the slowdown in contract awards which followed the appointment last June of vice-premier Zhu Rongji to control economic policy; nor by the concern of the International Union of Credit and Investment (Berne Union) ECAs over Chinese demands for export credit at below consensus rates.

Beijing has consistently called for interest rates of around 5 per cent on insured credits, well below the prevailing OECD consensus rate, currently 6.85 per cent. Banks and ECAs report offering interest rates of 5 per cent and below to secure contracts. This is despite the call of the Berne Union in October to cease providing sub-consensus export credits.

For all this, the scope for Chinese contracts makes the market extremely attractive to a wide variety of exporters. Forfaiters (specialist providers of trade finance) and other trade financiers report, for example, that margins can be very attractive and demand is high as exporters shop around for credit.

Letters of credit (l/cs) account for more than two-thirds of all international transactions. The prevailing view is summed up by a leading official of a leading European ECA: "We are totally open for China; demand for cover is heavy and we are trying to meet all the demand we can."

Belgium's OND, for example, plans to double its ceiling for Chinese cover to



BFr60bn, despite its resistance to providing sub-consensus credit. Agencies from Canada to Italy have adopted a similar line, arguing that lending must return to consensus rates – but only when all Berne Union members and the Chinese reach formal agreement.

Even more rigid ECAs, such as the UK's Export Credits Guarantee Department (ECGD), are following this line on China. This pragmatism has produced a climate of intense competition for Chinese contracts, exploited by Beijing in recent months by demanding interest rates as low as 4.5 per cent.

Beijing has built low-cost credit into its trading system: Chinese companies whose contracts are financed from international loans repayable at rates over 5 per cent must pay a 35 per cent tax. Lower paper interest rates "do not necessarily cost much in lost profits", a European banker argues. "The contractor just hides the difference in his price. The Chinese know this, as they understand the consensus."

To some extent the explosion in Chinese demand for credit has compensated exporters and trade financiers for the loss of other major markets. Italy, for example, has seen its credit-driven business with Algeria, Iran and the ex-Soviet Union collapse under payments pressure. In response, it has focused more export credit support through Sezione Speciale per l'Assicurazione del Credito all'Exportazione (SACE) on new markets, particularly by China.

These, for example, recently backed loans worth $74.12m for the Urumqi ammonia plant, arranged in Hong Kong by Credito Italiano and China Development Finance, and a $25.19m loan from the same bank – also for China Petrochemical International Company (Sinopec) – to part-finance the Lanzhou urea plant under construction by Technimont. The Urumqi development has also secured British soft funding.

The UK government has partly sought to counter rising political tensions over Hong Kong with a concerted campaign to build Chinese trade. But this, in any case, is a central element in the export drive promoted by Minister for Trade, Richard Needham. China is a leading member of the UK's group of so-called "amber markets", which have been allocated increased ECGD cover and lower premiums in recent budgets.

The UK export community lobbied hard for additional credit support to be converted into major contracts – notably the Guangzhou metro scheme, targeted for support from the third in the series of UK/China soft loan agreements. In the event, German companies signed the main Guanzhou metro contracts during a visit to Beijing in November by Chancellor Helmut Kohl. British companies may still pick up some orders from the scheme, but another project must now be agreed for the UK soft loan facility.

ECA and other forms of conventional financing look set to remain the norm for most projects. However, in a market as big and risky as China there are limits to just how much capacity exists for big ticket project financing. Limited-recourse and non-recourse project financing offer an alternative route.

For smaller contracts, China is a growing market for forfaiters, specialist providers of non-recourse finance. For major projects build-operate-transfer (BOT) techniques have made their entry, pioneered by the Hong Kong entrepreneur Gordon Wu. BOT based projects allow the international promoter to arrange financing and secure repayments from income streams generated by the project, which the promoter generates for an agreed period prior to handing it over to the appropriate authority.

In markets like China, where high growth rates contribute to a pressing need for infrastructure but financing from conventional ECA routes is limited, BOT-based projects could play an increasingly important role. This was recognised by the authorities in Guandong province, with whom Mr Wu's Hopewell Holdings launched its BOT programme. Hopewell established a track record with two power plants at Shajiao and is continuing with the $1.2bn super-highway running 123 km from Canton to Shenzhen, bordering Hong Kong.

China's coastal regions have been the focus of development and continue to attract most financing, not least due to the perception that Shanghai, Guangdong and other centres are most creditworthy. China differs vastly from its smaller neighbours, but for short-term business l/c confirmation rates are now very similar. European banks report accepting 180-day Chinese, Hong Kong and Taiwanese l/cs all at confirmation rates of 1.5 per mille.

Hong Kong has suffered a downgrading of its risk-rating due to growing political tension in the run-up to 1997. In December, Moody's Investor Service downgraded the rating of Hong Kong's Mass Transit Railway Corporation (MTRC) from A1 to Aa2. MTRC is a major borrower, with strong cashflow and an annual financing need of around HK$1.2bn.

MTRC's HK$-denominated debt was downgraded, Moody's said, because "China is likely to go through a period of uncertainty. This could affect political stability in Hong Kong."

For project financing, Hong Kong remains a more attractive prospect than China. Lending maturities are much longer than for the People's Republic. Bankers note that loans for Hopewell's Shajiao-C power plant carry only 7.5 years' maturity, while the Black Point power plant financing, arranged during the same period, has 19 years' maturity.

Macau looks set to attract substantial project financing in the run-up to 1999, when sovereignty over the Portuguese colony reverts to China.

This handover has avoided the conflicts which dog Chinese/Hong Kong relations. Among schemes in the pipeline are a new airport, ferry terminal, transport links to Guangdong and Zhuhai and the $1.4bn Nam Van Lakes (also known as Praia Grande) project, increasing Macau peninsula's land mass by 20 per cent on completion in 1999. Nam Van Lakes is to be part-financed from syndicated loans.

Taiwan has a very strong liquid position with foreign reserves of more than $80bn. The majority of project-based borrowing is on-shore. Most l/cs are unconfirmed and a substantial amount of trade is account-based.

Argentina finds its rhythm

Continued from Page 3

the exporting country's government export credit agency. Medium term trade finance for Argentina carries interest rates that vary between 6-9 per cent a year.

British exporters, however, must pay 12 per cent a year for five-year ECGD cover, about one-third more than US companies pay for Eximbank cover. A British banker commented that "most industrial products have become commodity items, so you are competing on price and finance. With Argentine companies able to borrow at 7.5 per cent a year, they are not going to touch UK financing with a bargepole."

Import tariffs vary from zero for capital goods to a top rate of 20 per cent. Companies must also pay a 3-10 per cent "statistics tax". Exporters of capital goods are exempted from this charge. However, the government has begun adopting a more aggressive trade policy, imposing quotas and countervailing duties for products ranging from chemicals to track shoes.

The government eliminated import barriers for capital equipment to encourage companies to modernise rapidly. Mr Jorge Herrera Vegas, undersecretary for economic integration, said "[capital] goods should be bought as cheaply as possible in the international market. Argentina is preparing for a leap in exports. It needs the most technologically advanced goods."

Executives tend to be more formal and less effusive than elsewhere in Latin America. Many speak good English and travel widely. Mr Behrendt says "Argentine industrialists are surprisingly well-informed. They read a lot, subscribe to technical magazines and travel to trade fairs a lot. They have a good understanding of high technology. They are sophisticated and want the newest equipment."

However, Mr Francisco Gascon, commercial counsellor at the Spanish Embassy in Buenos Aires, says few Argentine companies are sufficiently advanced to use state of the art technology. He says this makes intermediate-level equipment on offer from Spanish companies more appropriate to Argentine company needs.

Brazilian companies are also fearsomely competitive suppliers of intermediate industrial equipment. Brazil is now one of Argentina's most important suppliers and its chief partner in the Mercosur customs union. Mercosur, which also includes Paraguay and Uruguay, calls for a steady reduction in tariffs on trade between the four member countries. Tariffs are to be completely eliminated on nearly all goods by the end of this year. However, Argentina has retaliated against "unfair" Brazilian exports with protectionist measures against agricultural equipment, chemicals, textiles, paper, refrigeration equipment.

Despite the enthusiasm of many sales executives, Argentina's economic miracle is still far from being consolidated. One salesman predicts that one-third of Argentine companies will fail soon. He doubts many manufacturing companies will survive – although the outlook for service, food and energy-related industries is good.

Decades of political upheaval and economic chaos have left their mark. Argentina's business culture is unsophisticated compared with Chile, Brazil and Mexico. Corruption – even in private companies – does remain a problem. The government often changes import, tax and standards regulations by decree. Winning redress in the slow and corrupt judicial system is frustratingly difficult.

Freer trade after Gatt

Continued from Page 2

distorting subsidies and import barriers affecting agriculture would be cut over a period of six years, with support for domestic farming reduced by 20 per cent. All import barriers are to be converted to tariffs, and cut by 36 per cent, while Japan's and South Korea's closed rice markets will gradually open. Tariffs on tropical products were cut by more than 40 per cent.

- **Industrial goods:** a 30 per cent liberalisation of manufactured products would produce $23bn more income, with the OECD countries gaining about 64 per cent of the extra benefit derived from the liberalisation.

According to the deal, tariffs on industrial goods will be cut by more than one-third. More than 40 per cent of imports will enter duty free.

- **Services:** the OECD did not examine the liberalisation of services, but it said: "The liberalisation of services would undoubtedly add to the income and growth dividend, yielding additional benefits."

Naturally the Gatt deal will bring losers as well as winners in its wake. Producers formerly sheltered from competition by trade barriers and input subsidies would lose from elimination of these. Food importers in particular will suffer as a result of the higher prices projected for a number of cereals, resulting from the agreement. Overall, however, the aggregate level of losses is small compared with the gains.

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THE NATWEST BANK/FT EXPORTER FORUMS

When the experts falter

Ian Hamilton Fazey, who acted as moderator in a series of regional forums for UK businessmen and bankers, says they revealed widespread uncertainty about the nitty-gritty of export financing

The questioner was annoyed. He had an agent in Nigeria who would only accept payment in cash and in dollars. The exporter had opened a dollar account at his clearing bank branch in Manchester but had been told if he wanted dollar bills, he would have to buy them separately and pay in sterling from his normal account.

What was the point of having a foreign currency account if he could not withdraw foreign currency from it?

The answer – that foreign currencies are not legal tender in the UK, that any money in them is not "real", and the banks do not keep a supply of dollars, marks, francs, lire or whatever to service them – did not go down well with the questioner.

Nor did it impress many of the other exporters present at the forum organised by NatWest Bank, the *FT Exporter* and the Institute of Export. Geoff Able, a senior NatWest manager who had gamely stood up in the audience to try and explain, got a rough ride.

Foreign currency accounts, which can sometimes reduce exposure to exchange rate fluctuations if a currency is bought when cheap against sterling, are for "book" transactions only, he explained. Bank managers should make this clear when customers concerned opened them.

But, as many members of the audience made clear, some bank managers – and this applies to all the UK clearers – clearly do not.

They are generalists, not specialists, and some of them are more attuned than others as to whether they should refer exporting customers to experts employed in other parts of any bank's array of business banking services.

The issue illustrated a general point that emerged from the seven forums held in October and November in Leeds, Manchester, Newcastle, Bristol, Birmingham, London and Belfast. They were attended in total by more than 500 people actively involved in exporting.

At the end of the seven forums, the inescapable conclusion was that there is a worrying degree of ignorance throughout industry and commerce, mainly about the mechanics of exporting and many of the banking, legal, taxation and other financial issues associated with it.

My own role in the forums was to be a neutral chairman and questionmaster, ensuring audiences were not intimidated by the experts on the platform. Each forum covered six areas: VAT and the single market; customs planning; currency risk management; export trade finance; agency and distribution law; and international marketing.

Some experts, like Barry Price, from Her Majesty's Customs and Excise, Andy Nemes, of NatWest's international trade and banking services, Mike Thorpe, an international marketing specialist, and Ian Campbell, director-general of the Institute of Export, spoke at each forum. Others from KPMG Peat Marwick, NatWest Treasury, and Laytons, specialists on export law, shared the task between them.

Three 90-minute sessions were split between two 20-minute addresses by a relevant expert and 50 minutes of questions. The format ensured audiences were reasonably able to get what they wanted out of each day, with much of the real learning coming from questions, answers and ensuing discussions.

Questions – and sometimes fierce arguments – ensued about such topics as:

- registration for VAT in other EU countries;
- appealing against customs decisions in the UK and abroad, particularly in Japan;
- whether the banks are greedy or not;
- why companies dare not tell their bank managers how much export debt is hidden in their overdrafts;
- foreign currency accounts;
- the role of correspondent banks;
- problems over letters of credit (90 per cent of which are wrong on first presentation);
- the variable speed of monetary transmission through the world banking system;
- the shortage of credit insurance for exports to placers such as Mexico, Tunisia and China;
- how to trade in non-convertible currencies;
- the cost and implications of changes to UK agency law;
- the usefulness or otherwise of government departments and agencies;
- how to do basic market research abroad – and many other topics more specific to individual companies.

NatWest's senior managers, who attended each seminar in force, were uneasy at what emerged, since it not only revealed widespread ignorance among some of its customers, but also among branch managers.

By the time the London and Belfast forums were taking place, Andy Nemes was already assuring audiences that training programmes for bank managers and other staff would take lessons learned into account to try and improve things in the future.

To me, as the person responsible for getting the questions out of the audiences and answered properly, without evasion, by the experts, it seemed clear that much export policy and supporting services – including the media's own coverage – is sometimes too erudite.

While this may be fine for big companies which have experts of their own, many medium-sized and smaller companies – the bulk of business and, indeed, exporters – need a much more "nuts and bolts" approach, with lots of "how to" information and simple explanations of the implications of trade and foreign policy, changes in the law, and European union, for their finances.

International trade appears to be a minefield for most managers. The advice they can get from their banks and the government is patchy in quality, and sometimes wrong.

Although the experts at each forum knew their stuff and generally proved well able to help, other members of the audience often gave better answers and more practical advice.

For example, a good way of doing business in a non-convertible east European currency may well be to open an account with one of the main Austrian banks in Vienna. These banks have long experience of successful trade with the former Soviet bloc countries around them and how to help their customers finance it.

This course might well not be recommended by a British clearing bank because it would lose business in doing so. Even trying to arrange things through a UK bank with its Viennese correspondent bank might not work. At one forum an exporter said that his most effective approach had been to open the relevant account with the Viennese bank's branch in London, which then treated it as though it were based in Austria.

Other exporters had useful advice on the foreign currency issue: open the account with your bank's branch in the country where the currency is legal tender; that is, New York for dollars, Frankfurt for marks, and so on. If your bank has not got a branch, use the relevant correspondent bank in the country concerned.

Generally, the need is for export education and training. Ian Campbell sees the Institute of Export playing an increasingly important role in this, particularly as regards industry and commerce recognising the institute's own exams and training programmes more widely.

NATWEST/FT EXPORTER COMPETITION RESULTS

Three in front but it's Bonas by a nose

Why one of the world's top pharmaceuticals companies was pipped at the post by a small textile machinery maker in northeast England

Bonas Machinery sales director Jeff Gosling (2nd l) at the northeast award ceremony, with (l to r) Exports Institute director Ian Campbell, NatWest's Andy Nemes and FT's Ian Hamilton Fazey

It was almost a three-way dead heat. The mighty Zeneca Pharmaceuticals – the former ICI drugs business – looked as though it was going to win the first NatWest/*FT Exporter* award for export excellence when it was pipped at the post in a last round of point scoring.

The winner was Bonas Machine Company, a textile machinery manufacturer in north-east England, but by only half a percentage point over Richardson Sheffield, the well-known kitchen knife maker.

"I'm sorry anyone had to lose at all," Ian Campbell, chairman of the judges and director-general of the Institute of Export, said afterwards, "but there could only be one outright winner."

The competition was organised by National Westminster Bank, *FT Exporter* and the Institute of Export. The seven finalists were all winners of regional heats, announced at the series of forums held in London, Belfast, Birmingham, Bristol, Leeds, Manchester and Newcastle during October and November.

These export awards were different. Unlike most prizes in the exports field, neither the size of a company's export order book nor rapid growth in foreign markets were necessarily qualifications to win.

Independent assessors from the Institute of Export, NatWest and KPMG Peat Marwick, the accountancy firm, rated the finalists on efficiency, innovation, training, quality control, and whether exporting was part of each company's main thrust, rather than a bolt-on function.

This enabled very small companies such as Magstim – which makes medical instruments in Dyfed, South Wales, and has only a £1m turnover – to compete equally with Zeneca, the north-west winner, or Richardson Sheffield, which has annual sales of more than £25m.

Another small-sized finalist was Valpar Industrial of Bangor, County Down, the Northern Ireland winner. It turns over only £3m, selling a cooling system which ensures beverages like lager, beer or cola stay cold between store-room and tap. The other two finalists were Apollo Fire Detectors, the Hampshire-based London regional winner, and Staffordshire Tableware, which claims to be the world's largest mug manufacturer, winner of the Midlands prize.

Bonas received its award at a dinner in London from Baroness Chalker, the overseas development minister, Lord Alexander, NatWest chairman, and David Bell, chief executive of the FT.

Mr Campbell said: "The excellence awards were designed to test exporting philosophy and ethos in depth, rather than just acknowledge turnover and profit. Bonas demonstrated extensive customer contact, new product introduction, staff training and an attempt to raise standards year on year."

Bonas, which was founded in 1957, is based in Team Valley, Gateshead, and has offices in Charlotte – in the US – Hong Kong, Bombay, Frankfurt and Milan. It makes electronic jacquards – devices attached to looms that enable figures to be woven into fabrics.

With 383 employees worldwide, it exports to more than 75 countries, but particularly to the US, Germany, Switzerland, Japan, Italy and India. About 90 per cent of the present £35m of annual turnover is exported.

Mr Gordon Bridge, chief executive of Richardson Sheffield, was disappointed at losing by 65 per cent to 64.4 per cent but said coming so close would only inspire the company to try harder next time.

Richardson came top in three of the five categories – innovation, education and thrust. Bonas was top in efficiency and quality, but was equal second with Zeneca for education and third on thrust. Richardson's chances were spoiled by a third place on efficiency and an equal fourth in the quality category, where only 3.5 points out of 18 separated the seven contestants.

Zeneca won no category outright, but was second or third in four of them and fourth in the remaining one. The final scores were decided by marks out of 10 for overall impression – a subjective measure, but one where the judges were rightly called on to display some judgment. Valpar and Apollo scored equally with Zeneca here, while Magstim and Staffordshire tied just one point behind. This meant, in effect, that none of the finalists did badly, as might be expected from companies which had already beaten off strong regional challenges to reach the last – and necessarily merciless – stage of judging.

All said just entering was worthwhile in itself, since it forced critical self-examination. In Zeneca's case, senior managers used it as a means of pulling their team together at a time when the business was establishing itself, after ICI split its "bio" and "non-bio" businesses last year.

The most interesting individual exporting story came from Magstim, last but no means least of the finalists. As a Welshman, Robin Davies, the international sales director, naturally has Welsh as one of his languages. Had he ever sold in Welsh? Well, yes. He was making a presentation to senior doctors in a Canadian hospital when one of them, in exile from Wales for 25 years, asked him a question in Welsh. Davies replied in kind and the discussion continued in the language. The order was clinched on the strength of it.

Ian Hamilton Fazey

□ EUROPEAN LAW AND THE UK: **COMMERCIAL AGENTS' STATUS**

A rude awakening in Britain

European law on of commercial agents is finally in force in the UK. But many companies have been slow to grasp the changes and, in doing so, have had a rude awakening, writes **Ian Hamilton Fazey**

Since January 1, commercial agents throughout the European Union have never had it so good. That was the date the UK became the last EU country to implement a 1986 directive harmonising agency law.

The changes relate to people or companies selling goods on commission. Suddenly, all such agents in Europe have comparable levels of job security, rights under law and compensation for loss of office to those enjoyed by employees – and possibly better. In many cases, they are now entitled to be paid commission before their principal has been paid by the customer.

They also have more right to inspect a principal's books than the principal's employees or shareholders. The changes fit with the trend in the last 30 years for European laws which formally protect the individual against the state, corporation or any other institution with power to impose upon people's lives.

Under old UK law, most agents had the thin end of the stick if anything went wrong, facing costly legal process if they sought redress through the courts. Other EU countries, however, have long since seen being an agent as similar to employment, particularly if the agent was an individual.

The implications have taken a long time to sink in with many British companies. Despite warnings from the Institute of Export and seminars run by several leading commercial law firms, many senior managers have seen the changes in the law as technical and nothing much to worry about.

When the message started getting through, therefore, it came as a shock. There was telling evidence of this at the seven NatWest/*FT Exporter* meetings held around the UK during the October and November. Lawyers from Laytons, which specialises in export markets, elicited gasps of dismay and anxious questioning from every audience. Articles in the FT since have brought many phone calls and letters from disbelieving, sometimes anxious readers, who have been urged to see their solicitors.

If the government believes it carried out a successful consultation process on the new laws, this apparent ignorance throughout UK industry and commerce should give pause for thought. Even the final form of the directive – published two weeks before Christmas – complicated the regulations on compensation for sacked agents and was sprung on industry too late for amendments. The Institute of Export has protested to the DTI about inadequate consultation. The root of the problem is that the DTI's consumer affairs and small firms section handled the process – most agents are small businesses – instead of the trade section, where more attention would have been paid to exporters.

Many companies realised in the nick of time they should look carefully at all existing agency agreements – including those in UK domestic markets – tear them up if necessary, and take specialised legal advice to redraft and agree them before January 1 so the new laws should operate fairly for both sides if there is a dispute in future.

Michael Thornton, of the Manchester office of Laytons, is co-author of a new edition of Schmitthoff's *Agency and Distribution Law*, which has been published jointly by Sweet & Maxwell and the Institute of Export at £26 to bring everyone up to date on the changes. He frightened many in the audiences at the Leeds, Newcastle and Manchester forums when he spelled out what they meant.

"Many companies don't want to spend money on their lawyers because we don't come cheap," he says. "But the consequences of not doing so could be very much more expensive. Many British sales managors have been content to appoint agents on the basis of an oral agreement and handshake or at most an exchange of letters. This may be OK, but not if there is a disagreement, and especially not now.

"The law is now codified and weighted much more towards the agent. The cheapest option is to get things as right as possible from the outset because it will be much more expensive if you end up in dispute later," Mr Thornton says.

For any companies which have not yet realised the potential problems, it is now probably too late to terminate existing agency agreements and start again without buying their way out if they cannot obtain mutual consent.

Agents are now protected against being unilaterally fired. Since January 1, they have been entitled to one month's average commission for each year they have acted for a principal, up to a three-month maximum if they sue in the UK, up to seven months if they operate in Italy and take action there.

This latter point emphasises one value of specifying in any agreement that disputes will be dealt with under UK law. Now, if an agent suspects a principal of secretly doing business directly with customers the agent originally brought in, the agent can demand to inspect the principal's books to check – and then claim commission on the sales. Even if an agency agreement has been terminated, former agents can still claim for continuing sales to any customers they introduced years before.

What has troubled many companies is the timing of payments of commission. Under the new European law, commission is due when a transaction has been completed, but "completion" now means delivery of the goods, not when the customer has paid. It can even mean when *delivery should have* been made: if the principal is late on delivery, or puts the order to the back of the queue to do something else, or even fails to deliver at all, the agent is still entitled to commission from when the order would otherwise have been completed. If the customer never pays, then a principal may be able to demand repayment from an agent, but whether the debt turns out to be good or bad, there are cash-flow implications for the principal.

Patrick Kelly, who is in charge of Layton's European practice in London, also points out another serious potential problem. If an agent buys new equipment, sets up an office or makes any other sort of capital investment to carry out duties for his or her principal, then the principal now has to pay any outstanding amortisation costs if the agency agreement ends. "You must be very careful about agreeing to your agent buying anything – even though the agent pays – in order to carry out your agency agreement," he warns.

All of this assumes, of course, that things will eventually go wrong between agent and principal. In many cases, they will not. Many principals have happy, longstanding arrangements with agents that have worked to their mutual benefit for years. Nevertheless, this did not stop many companies from tearing up all their agency agreement worldwide before January 1 and starting afresh by codifying and standardising their own approach.

This process of re-evaluation has generally been beneficial all round, often strengthening relationships with good agents and improving prospects. In some cases, agents have been dropped because companies have decided agency is not the best way to carry on. Others, though, have been taken on as employees, or offered distribution agreements instead. This has appealed where regular sales of relatively low-value items have been involved.

Distributors take risks where agents do not – they pay for goods and take title to them, assuming responsibility for bad debts in the process. Agents earn commission, do not take title to the goods they sell and bear no risk from bad debts. Distributors make their money by selling for higher prices than they themselves paid for the good they took.

Lawyers say the problem with many agency agreements is that they are made by sales managers, often without legal advice, and with no assessment of downside financial risks for the company as a whole. Solicitors say they must be part of mainstream general management's function, with vetting of agreements, whether in-house or bought-in.

One company at a NatWest/*FT Exporter* forum woke up to this, but had no budget for it in 1993. It has made a provision for next year's budget, which runs from April – too late for the December 31 deadline when the cheapest option expired.

OECD EXPORT CREDIT INTEREST RATES

Minimum rates for officially backed export credit (%)

	Jan 15-Feb 14	*Dec 15-Jan 14*
Australian $	7.17	7.38
Austrian Sch.	6.91	7.08
Belgian franc	7.42	7.85
Canadian $ (to 5 years)	6.05	6.35
Canadian $ (5 to 8+ years)	6.80	7.00
Canadian $ (over 8+ years)	7.36	7.50
Danish krone	7.20	7.60
Dutch guilder (to 5 years)	6.10	6.25
Dutch guilder (5 to 8+ years)	6.35	6.50
Dutch guilder (over 8+ years)	7.0	7.20
Ecu	6.56	6.83
Finnish markka	7.26	7.50
French franc	6.50	6.73
German mark	6.17	6.29
Irish punt	6.95	7.10
Italian lira	8.58	8.94
Japanese yen	3.30	3.30
N. Zealand $	6.65	6.96
Norwegian krone	6.27	6.33
Spanish peseta	9.06	9.34
Swedish krona	7.73	7.93
Swiss franc	5.26	5.32
UK pound	6.71	7.21
US dollar (to 5 years)	5.64	5.60
US dollar (5 to 8+ years)	6.15	6.06
US dollar (over 8+ years)	6.48	6.45

Source: OECD

Baroness Chalker addresses NatWest/FT Exporter award finalists (see facing page)

☐ EXPORTER PROFILE: **MERLONI of Italy**

From the middle of nowhere

Merloni, known for its Ariston brand, is the only big white goods company still in Italian hands. Its success was built on design flair and efficiency. **David Lane** examines its overseas impact

Large household appliances rank high in any list of Italian manufacturing strengths. For many years Italy's white goods industry has been a European leader, leaving little space for foreign intruders in its home market and aggressively capturing market share abroad. It has provided jobs for tens of thousands and a wealth of case study material for business school students.

Refrigerators and washing machines were in the forefront of goods that contributed significantly to export success during the 1960s "economic miracle". They continue to do so. The shake-out in the sector during the 1980s has left fewer, but stronger, large players. Merloni Elettrodomestici is one of them.

Known for its Ariston brand, Merloni recorded consolidated sales of about L1,700bn last year, of which about two thirds were outside Italy. Holding market leadership with 22 per cent of its home market, Merloni has nearly 10 per cent of the white goods market in both France and the UK, as well as almost 4 per cent in Germany. "France and the UK together generate the same turnover as Italy," notes Vittorio Merloni, chairman.

"We were helped by the exchange rate last year. But we do not want, or need, to compete through devaluation," claims Mr Merloni. He adds that the company gained a full point of European market share in 1993. Profits also increased. The group posted L14bn on L726bn sales at the end of June, doubling 1992's L7bn half-year result on L631bn sales, and the year-end figures are expected to show further improvement.

Merloni is one of Europe's four big white goods makers, keeping company with Electrolux, Whirlpool (Philips) and Siemens. It is now the only Italian-owned maker in the top league, the 1980s shake-out in the sector seeing Zanussi taken over by Electrolux and Ignis taken over by Philips. Merloni itself contributed to the rationalisation by absorbing Indesit six years ago.

The company has come from behind to take a place among today's leaders. Established in 1930 by the present chairman's father, Merloni was originally a maker of weighing machines. Diversification took it first, at the beginning of the 1960s, into the manufacture of gas cylinders, and then into gas cookers and water heaters.

"We made our first electrical appliances at the end of the 1960s. Being a latecomer to the sector we faced the disadvantage of being small when competitors were already large. But we benefited from the advantage of an established and growing market," says Mr Merloni.

"In shifting into electrical appliances we were able to draw on our existing technologies, processes and distribution systems. Design was, however, the aspect that marked us out from our competitors. "Merloni has been in the forefront in design," he explains.

Italian industrial design seemed to take the world by storm during the 1960s and 1970s. "Merloni rode this wave," says the company's chairman. He adds, "Ten years ago we launched the 'Margherita' range, and this was very influential. A new generation of appliances is currently being designed by Giugiaro to re-launch the Indesit brand."

Design is an important factor. "But costs and the cost/quality ratio are crucial," says Mr Merloni. He explains that, while the competitive edge of low labour costs enjoyed by Italian manufacturing during the "economic miracle" has long since been eroded, labour is now a smaller part of total costs.

"It was about 25 per cent in the 1960s. Today the wage bill represents less than 15 per cent of our total costs. It is no accident that we have invested heavily in production processes to reduce the impact of labour costs. Directing investment into new and more efficient equipment has been encouraged by Italian tax laws which permit a significant level of accelerated depreciation," says Mr Merloni.

Design flair and efficiency in production help explain Italy's leadership in white goods. Can this be maintained? Mr Merloni is confident that it can. "A highly competitive system has developed. Alongside the small number of large well-known manufacturers there are many lesser-known and small makers. My brother's company is an example. It makes 1.5m refrigerators and washing machines each year for leading brands. Behind the white goods makers there is a robust and flexible network of component and machinery manufacturers," says Mr Merloni. He believes that Italy's position is not at risk in the short or medium term.

Merloni production line: 70 per cent of sales are exports

Mr Merloni says that transport costs are one of the reasons why the company will return to manufacturing in Britain. (It decided to close its Colston subsidiary at the end of the 1980s.) Merloni currently makes almost one quarter of its annual production of 4.3m units – split about equally between cookers and ovens, refrigerators and freezers, and washing machines and dishwashers – in its French, Portuguese and Turkish subsidiaries.

Although manufacturing may increase abroad, the importance of the Italian home base will not diminish. Merloni's main factory is at Fabriano in the Marches. "It is in the middle of nowhere," remarks Mr Merloni. He adds: "Marchigiani have always been forced to look to distant markets. Ten years ago 70 per cent of Merloni's sales were in Italy and 30 per cent abroad. Now the converse is true."

☐ EXPORTER PROFILE: **KOMPAN CANADA**

Swings, roundabouts for sale

Denmark's Kompan International is the world's biggest supplier of playground equipment. Its 10 year-old subsidiary in Canada has captured 15-20 per cent of the local market, writes **Bernard Simon**

In the 10 years since Denmark's Kompan International started doing business in Canada, it has garnered 15-20 per cent of the country's market for children's playground equipment.

That is no mean achievement in a widely-dispersed, fragmented and highly competitive market where many buyers, especially in the public sector, tend to view foreign suppliers with suspicion.

Kompan, whose annual sales in Canada now exceed C$4m, has gained a reputation as a supplier of top-quality and innovative – though high-priced – playground apparatus. "They've made phenomenal inroads," says Mr Rolf Huber, president of Sporthau Canada, which surfaces playgrounds for Kompan and its competitors.

Kompan is the world's biggest maker of playground equipment. The Danish parent has broadened its base in recent years by buying Speelhout, a Dutch company which specialises in outdoor "furniture" for young teens, and BigToys Playstructures, a US-based manufacturer. Kompan Canada acquired a BigToys agent (including a components factory) in British Columbia late last year.

Mr Troels Engholm, Kompan Canada's general manager, says that a key to success has been "to stay closely in tune with local markets". Although Kompan has a total staff of only 25 in Canada, they are scattered in seven sales offices throughout the country. With the addition of four agents, that gives it a presence in each of Canada's 10 provinces.

Mr Engholm says that different regions require different marketing strategies. French-speaking Quebec, for instance, has proved to be more receptive to a foreign-made product. Similarly, day-care facilities are not as popular or sophisticated on the west coast as in the industrial heartland of Ontario and Quebec. Most of Kompan's business in British Columbia is for municipal playgrounds.

The separatist movement in Quebec helped persuade Kompan to broaden its presence in English Canada through the purchase of BigToys, based in a suburb of Vancouver. The head office is in Gatineau, Quebec, on the outskirts of Ottawa. But Mr Engholm says this location has created the impression among customers elsewhere that Kompan's first loyalty is to Quebec. "It's important to make people understand that we're equally committed throughout the country," he says.

The Danish company has helped pioneer a transformation in children's playgrounds over the past decade. Modern playgrounds are designed with a more sociable dimension than their predecessors, shifting the emphasis from children's physical prowess to social interaction.

The trend now is to divide play areas into separate zones, each with its own cluster of relatively small, colourful structures, designed to be as unintimidating as possible. Mr Engholm says the entire group has made "a relentless effort" to educate municipalities and child-care centres on the need for higher-quality equipment for young children, aged eight and under. Many of its sales representatives have a background in childhood education, including one in British Columbia with a master's degree in child psychology.

Kompan's product line includes a colourful den and castle for toddlers, unusually small play-houses, and mini-seesaws. It has persuaded many (though by no means all) municipalities and child-care centres to move away from traditionally steel play equipment to wood.

Kompan's high prices deter some buyers, especially those which put their business out to tender. Furthermore, some North American cities still prefer installing vandal- and fire-proof steel structures rather than Kompan's wood products.

Mr Kim Mullin, an engineering assistant at the Vancouver Park Board, has high praise for Kompan's quality, calling some of its apparatus "the Cadillac" of playground equipment. But Vancouver has bought very little from the Danish company. "Often the Canadian and US product comes in a little cheaper," Mr Mullin says.

☐ GOVERNMENT PROMOTION: **UNITED STATES**

Mobilising the export armies

Following the birth of the North American free trade area, the US commerce department is exhorting Americans to boost exports with all the fervour of a war recruitment drive, writes **Nancy Dunne**

The management of Counter Technology Inc., a Maryland security services and technology company with 200 employees, had given little thought to exporting even though its Mexican-American owners were interested in the North American Free Trade Agreement.

"Nafta was just pie in the sky until we got approached by Commerce," said Mr Julian Martinez, a company spokesman. "We felt we had barely penetrated the domestic market, so we couldn't see going off to another country. Now I'm glad we did."

Under Export Mexico, one of the US government's numerous export promotion schemes, Counter Technology was invited to be part of a delegation of US minority-owned companies exhibiting in a trade show in Mexico. Company representatives were thoroughly briefed about their prospects and given appointments with likely customers in Mexico.

"The door was half way open for us. It opened our eyes to other possibilities," Mr Martinez said. The company is now studying two lucrative opportunities – with the US embassy in Mexico and a Mexican airline.

Hundreds more small and medium size businesses – which once would never have considered expanding beyond the US market – are being prodded to export by the Commerce Department. Its Secretary, Mr Ron Brown, the former Democratic party chief, seems personally to have taken over the Administration's mantra: "exports exports exports..."

Commerce secretaries have long preached government-business partnerships and the necessity of boosting small business exports. But Mr Brown and his colleagues spent their first year in office preparing to make good on the talk.

One of the Secretary's first acts was to convene a Trade Promotion Coordinating Committee (TPCC), a group authorised by law during the Bush Administration, which largely ignored the statute. Mr Brown, however, saw the TPCC as his opportunity to play a prominent role in trade policy.

He appointed Mr Kenneth Brody, chairman of the US Export-Import Bank, to chair a TPCC working group, and together in September they presented 60 specific recommendations for improving US export promotion programmes. Since then, the two men have methodically set about instituting the proposals.

As a result, high technology companies, shackled for years by stringent export controls, have been liberated. Export finance has been increased. Export promotion programmes spread across 19 government agencies are being strengthened and coordinated.

"Our government is stepping up in a way it hasn't before to help US companies create and maintain jobs by being export winners," says Mr Brody.

One TPCC priority is to make government aid easily available to novice exporters, who might never otherwise find their way through the labyrinth of government schemes.

This month and next Eximbank, Commerce, the Small Business Administration and other agencies are rolling out the first four of a string of "one stop shops" to be located in major cities around the country. Eventually all domestic field offices related to federal trade programmes will be consolidated, located with other private and state export programmes and their computer capacity upgraded. Information for programmes such as Export Mexico will be disseminated along with other "how to" data.

Export data are also available through the Commerce Department's new Trade Information Centre, which has been receiving more than 1,000 calls a week over its toll free telephone number. In response to requests, the centre's "punch in" telefax has been churning out pages of information on the Uruguay Round, Nafta and environmental technology trade (another new specialised trade programme scheme).

US business finds even more on offer for the Export Mexico programme: counselling from desk officers from the Office of Mexico in Washington; export specialists from the US and Foreign Commercial Service to help develop market strategies; and, for a price, customised market surveys, a service providing credit and financial information about Mexican companies, and government-organised trade missions.

In Mexico City, the Commerce Department has a US Trade Centre and library. It has posts in Guadalajara and Monterrey. To help neophyte traders feel more at home, the Commerce Department has set up a Gold Key Service which for $350 for the first day arranges appointments with pre-qualified potential Mexican agents, distributors and business associates; provides interpreters and assistants and meeting spaces.

The US Small Business Administration has expanded its own programmes for exporters. Minority owned companies can get loan guarantees. An Export Revolving Line of Credit loan guarantee programme can be used to finance labour and materials for manufacturing and wholesaling for export, to finance foreign accounts receivable or to penetrate foreign markets.

For all the activity, there has not yet been a pay-off in export statistics, Administration officials acknowledge. But unquestionably the US now is gearing up for competition in a way it once prepared for wars and the space programme. In the end, the investment will pay off handsomely.

☐ GOVERNMENT PROMOTION: UNITED KINGDOM

Putting out more flags

The DTI is coopting 100 businessmen to aid it in boosting exports. If the drive fails the private sector concedes that it will have to share the blame, writes David Dodwell, FT world trade editor

The chorus from British exporters has been very much the same for most of the past decade: Government neither understands their needs, nor listens to their views on how they might best be helped.

Until about 18 months ago, that is. Since then, the shared aim of Mr Michael Heseltine, trade and industry secretary, and Mr Richard Needham, his terrier-like trade minister, has been to get industry working alongside Whitehall to define the country's export strategies.

Perhaps the most potent and ambitious departure has been the "export promoter" initiative. Moving beyond the idea of consulting industry leaders, export organisations and chambers of commerce, the Department of Trade and Industry is in the process of recruiting business executives to work inside government – 100 of them, most on two-year secondment. "We have virtually doubled our export promotion capacity overnight. We're thrilled about it," said one senior DTI official.

But will industry have reason to be similarly thrilled? What role are these seconded troubleshooters expected to play? How will their "successes" be measured? How well equipped are they to advise small and medium-sized UK companies when their career experience has been inside large multinationals?

The initiative, launched by Mr Michael Heseltine early last year, is one of a number of recent government innovations aimed at sharpening Britain's export effort. At a stroke, it has provided a means for the government to harness the knowledge and skills of UK industrialists, and silenced industry complaints that the government never listens to it.

Nine months into the programme, just 60 of the 100 export promoters have been recruited from the ranks of the UK's top 100 companies: "Recruitment has gone slower than we expected, but we have been pleased with the quality of executives seconded," says Ms Helen Deas, who is responsible for the Export Promoter scheme at the DTI: "I had some doubts about whether industry would release top people, but I have been pleasantly surprised."

The task of defining a particular export promoter's role has been difficult. For large countries such as the US or Japan, a team of export promoters has been brought together, each specialising in a particular industrial sector. For smaller markets such as Thailand or Turkey, one export promoter faces the task of becoming a "jack of all export trades", regardless of his or her corporate background.

All promoters are expected to have a deep working knowledge of the market for which they are responsible, and to have spent a considerable amount of time working there. Regions hardest to find candidates for have been China, South America and the former Soviet Union – no doubt because companies are reluctant to release staff in these key growth areas where rare language skills are needed.

Beyond that, the problem likely to face export promoters has been one of having too much freedom to define their role rather than too little: "It is clear that they need to be team players, but they have to build on, rather than compete with, what we have already got either in the DTI, or in embassies overseas," one DTI official said. "There is nothing to stop an export promoter from completely redefining an area: it is their initiative, energy and enthusiasm that will drive the programme forward."

For Peter Jenning, seconded in February from the chemicals group Siebe to work on boosting exports of environmental products and services to the US market, this has involved mobilising UK consulates across the US to complete a study of the $120bn north American environmental services market.

It has also involved careful thought about the sort of British company that might look seriously to the US: "The UK environmental services industry is still immature by comparison with US industry, which has been structured by strong environmental legislation," Mr Jenning said: "It has been a matter of finding innovative companies and bringing them forward." His third initiative has been to examine export opportunities arising from the North American Free Trade Agreement, which has committed considerable funds to cleaning up the environment along the industrially-polluted US-Mexico border.

"We have to convince industry that this is not just another series of fruitless exercises," he said: "In some areas, the reputation of the DTI is not that good."

Peter Bacon, seconded from Philips to concentrate on Japan's electronics sector, is adopting a different tack: helping UK components manufacturers to penetrate the UK-based subsidiaries of Japanese companies such as Sony, Panasonic or Mitsubishi.

"Many Japanese companies may operate in the UK, but are headquartered in Japan, with most decisions taken there," he notes: "When design is done in Japan, and many components chosen at the design stage, we have to find ways of influencing thinking in Tokyo before we can succeed in supplying their UK-based offshoots."

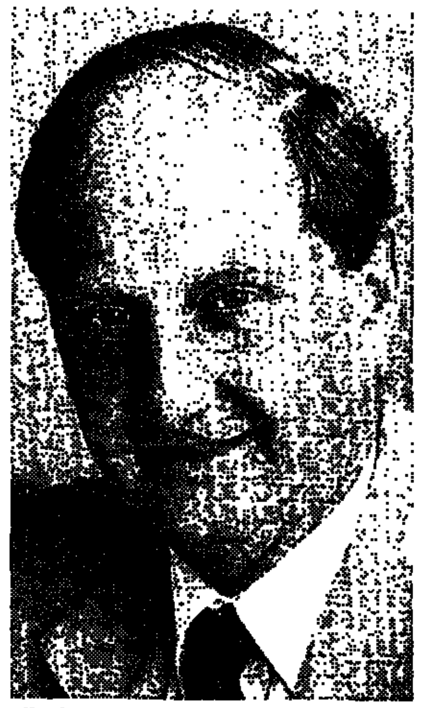
He plans to use his own market knowledge, and that of UK mission staff in Japan, to improve access to decision makers in Japan – not to win export orders (at least initially), but to replace imports: to demonstrate that UK companies can supply Japanese subsidiaries operating in the UK and Europe more effectively and reliably than component-makers based in Japan.

By contrast the first priority of Ian Paterson, seconded from Thorn as export promoter for Singapore and Malaysia, has been to draw up "sellers' guides" to key growth sectors in Malaysia. In contrast to DTI efforts, he sees his role as "specific action- and deal-oriented ... we have learned that the DTI has much more information available than most companies are aware of. They could often hit the ground running just by using the information that's available here."

Starting from sector overviews drawn up by British embassy staff in Malaysia, Mr Paterson's "sellers' guides" are intended to be hands-on "how to" guides for sectors ranging from transport, power, oil and gas, and telecommunications to water and health services.

All three promoters dismissed concern that their "big industry" experience left them ill-equipped to appreciate the problems of small and medium-sized exporters: "Most big companies are aggregations of small operating units," said Ian Paterson.

Measuring the success of the export promoter initiative is likely to be a complex matter. In very few cases will a company clearly attribute a sale, or establishment of a foothold in a market, to a promoter. Gains may only be made over a long period. DTI officials acknowledge the speciousness of measuring success in terms of the number of trade missions arranged, or the number of executives on a particular mission, but are at a loss to offer alternatives: "It is for export promoters – and their energy and enthusiasm – to drive the initiative forward," one noted.


DTI's Needham: terrier-like persistence

To provide focus, promoters may draw on DTI "market plans" for the UK's top 80 export markets: "It is the forecasts of these plans that will drive DTI desk staff, embassy staff in the field, area advisory groups, and export promoters," one explained. Promoters will also answer to "god-fathers" – heads of the DTI's various area advisory groups. For the head of the European group, that will mean integrating 20 export promoters into his department's operations – a formidable management challenge.

Whether the export promoter initiative generates new exports or not, its ultimate virtue might lay elsewhere. First it will make companies better aware of the DTI's services, and the help it can offer exporters. Perhaps most important, it undermines the basis for industry complaints that government is to be blamed if exporters fail. One industrialist conceded: "If in future we fail to win export orders, we will have no-one to blame but ourselves".

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☐ THE DTI'S STRATEGIC ALLIANCE SCHEME

Whitehall plays the marriage broker

David Dodwell looks at a scheme to arrange suitable matches between UK companies and potential overseas partners

"We have made three attempts to get involved in the US market, and none of them has worked," says David Lever, managing director of Stampiton, a small private company in Whaley Bridge in Derbyshire which makes self-adhesive labels.

For him, the UK government's newly-launched "strategic alliance" scheme has been a godsend. As he enters stage four of this five-module programme, intended to find his company a US partner, he comments: "Previously, we didn't feel we quite had the right contacts. Now, we are getting straight to the people who could really be interested."

The strategic alliance scheme is one of a number of radical export promotion initiatives taken by Britain's department of trade and industry early in 1993. The scheme is subsidised by the government, but managed and operated by Price Waterhouse, the accountancy and management consultancy group. It is aimed at companies employing fewer than 500 people, with a turnover of between £5m-£50m.

Stampiton is one of 50 UK companies which, the government hopes, will be targeted each year under the scheme. So far, about half that number have joined. If the scheme works as an effective matchmaker, it will increase exports and foreign earnings from a market which many UK companies find complicated and daunting.

Tony Ellam, who was seconded in June from National Westminster Bank as an export promoter to oversee the strategic alliance scheme, notes: "Companies don't realise the size and complexity of the US market. This scheme is cost effective both in terms of time and money. To set up in the US oneself will take a lot of time, and can be hit-or-miss. To employ a consultant from the outset would be prohibitively expensive for many small and medium-sized companies."

Sheila McGregor, director at London's City and Guilds Institute, would wholly endorse Mr Ellam's views: "I wish we had had the strategic alliance programme when we set up in the US," she mourns.

She admits that the institute (which owns the Pitman Examinations Institute specialising in teaching shorthand, as well as specialising in educational assessment and standards) effectively chose a partner because the US company approached it. She recalls a list of errors which eventually led the institute to put their own executive in the US to sort matters out: "Now, two years after putting in our own executive, we are making great strides, but it has been an expensive way of finding out."

Even now she is keen to join the strategic alliance scheme – potentially to start afresh with a US partner.

After selecting an applicant company as a suitable potential participant, Price Waterhouse conducts an initial business strategy review with each selected company. After this second "module", most companies will move on to prepare an "alliance proposal" – a document circulated to potential partners which describes strategic aims, but not the identity of the UK company.

Stage four involves Price Waterhouse staff across the US, bringing together details of three or four US companies, and ranking them in terms of potential suitability as partners.

In the final, fifth, module, Price Waterhouse will introduce the UK company to up to three potential partners. Here the scheme ends, approximately 44 weeks after initial acceptance.

At Stampiton, Mr Lever has just entered module four. Over the Christmas break, Price Waterhouse delivered its report identifying potential US partners: "We have now reached the exciting stage," he comments. He is excited not just because of the speed with which he has reached this stage, but because Price Waterhouse have been able to trawl a much wider range of potential partners than Stampiton could have managed alone.

Even more critically, potential US partners have taken the approach seriously because it has been filtered both through Price Waterhouse and the UK government: "Our approach carries much more authority because of going through the vetting process. Our bona fides have already been established with the potential US partner," Mr Lever says.

The scheme has not been free: each company will pay a total of £14,000 if it goes through each of the five modules. But this is considerably cheaper than would have been possible without the government scheme.

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☐ BANK WATCH: FRANCE

A cold wind that blows no good

The climate for export credit has worsened, writes Alice Rawsthorn. France's small and medium-size companies are the principal sufferers

For the past year or so, as the French economy has sunk into recession, one of the hottest topics on France's corporate agenda has been the deterioration in relations between companies, particularly small businesses, and their banks.

Small and medium-sized companies (SMEs) have so far borne the brunt of the French recession. As the economic pressure has mounted, complaints about banks being too slow and too unsympathetic in their response to companies' cashflow problems and other financial hiccoughs have become commonplace.

The chief problems are, predictably, that the banks are, or so companies claim, too cautious about advancing credit to tide them over difficult periods and too quick to pull the plug when things go wrong. But unfortunately for France's exporters the chilly economic climate has also prompted the banks to cut back in the field of export credit guarantee products such as short term and medium term contract insurance.

"The situation has not reached a critical stage," said the Conseil National du Patronat Français, or Patronat, which is the mouthpiece for French industry.

"But there has been a noticeable decline in the amount of funds that the banks are willing to commit to export credit guarantee products and it has already caused difficulties for some French companies."

Small businesses are, yet again, the main victims of the squeeze in the export credit guarantee market. The French government's official export credit guarantees are distributed through Coface, the state-controlled export credit agency. However the Coface system is extremely bureaucratic and, in practice, most of its customers tend to be large companies. Smaller concerns often do not have the time, or the resources, to cope and are forced to turn to the private sector, generally to their own banks, to find alternative products.

Until the late 1980s the market for such products was dominated by Banque Française de Commerce Extérieur (BFCE), the specialist commercial bank now owned by a group of French financial institutions including Assurances Générales de France (AGF), the insurance concern, and Crédit Lyonnais, the banking group.

The market was liberalised in 1989 thereby enabling other banks to offer export credit guarantee-related products and services. Crédit Lyonnais itself is now a sizeable presence in the sector together with Banque Nationale de Paris (BNP), Société Générale, Banque Indosuez, Compagnie Financière de CIC et de l'Union Européenne, Banque Paribas and Crédit Commercial de France. The Association Française des Banques (AFB) estimates that these banks, together with BFCE, now account for 86 per cent of the market.

The Patronat has detected little evidence among its members of complaints about the quality of the export credit guarantee products supplied by French banks. "The regulations for most aspects of such services are now more or less harmonised across Europe," said an official. "And France, like every other country, complies with the rules."

Instead the problems seem to be restricted to the banks' willingness to commit funds to such products. This "supply problem" has, according to the Patronat, intensified over the past two years as the banks have felt the strain of the French economic slowdown.


Crédit Lyonnais: very exposed (Tony Andrews)

France's banks have undoubtedly had a tough time in the early 1990s. The combination of relatively high commercial lending rates and low inflation has left French real interest rates among the lowest in Europe thereby depressing demand for credit both from consumers and the corporate sector.

At the same time the banks have had to make steep provisions for sour loans and on the reduced value of their property portfolios.

The most exposed banks, notably Crédit Lyonnais which had embarked on a frenetic expansion programme on the brink of the recession, have also been forced to make painful provisions on big corporate collapses.

This tough trading climate has made the banks much more cautious about their dealings with their clients in almost every area of activity.

However, they have become particularly cautious in the parts of their business that they have traditionally found to be less profitable, notably in the sphere of export credit guarantee products.

The profitability issue had already emerged as a problem even before the economic recession. But it has loomed even larger as the general pressures on the banks have escalated. Local chambers of commerce and small business associations, as well as the Patronat, claim that it is becoming increasingly difficult for their members to secure financial protection for export orders.

The problem has been magnified in the wake of the French franc's volatility during the European currency crises in autumn 1992 and summer 1993 which served as a stern lesson to France's exporters as to just how vulnerable they could be to sudden swings in exchange rates and as to the value of currency risk cover.

"We recognise that even after the recession ends there will still be a problem with the poor profitability of export credit guarantee products," said the Patronat. "It's a complicated issue but we've got to find a long term solution. At some stage we're all going to have to sit round the table and talk."

☐ CUSTOMER FEEDBACK: COFACE of France

Elastic but not enough

The French agency wins a mixed verdict, says John Ridding

THESE are risky times for French exporters. "The only certainty now is that markets are more competitive and less predictable," says the managing director of one electronics group. For him and for his counterparts across French industry, such trials raise their reliance on Coface, the French export credit agency. They also raise the question of how the organisation has responded to the challenge.

For most exporters, the answer is largely positive. A series of reforms and the introduction of new policies has increased the flexibility of the organisation. An international expansion has increased the range of its services and its expertise. But there remain areas where users believe improvements can be made.

In the field of exchange rate risk cover, for example, clients see improvements and the scope for further progress. "For most of our overseas contracts, Coface provides an attractive means of covering exchange rates," says Mr Jean-Paul Marangone, attaché in the financial department of Merlin Gerin, the electrical engineering group.

Like many other French companies, Merlin Gerin has found a greater need for protection against the vagaries of international currency movements. Before the departure of sterling and the lira from the EMS and last summer's reforms to the exchange rate mechanism which brought a widening of fluctuation bands for all of the member currencies, the US dollar accounted for between 80 and 90 per cent of the group's exchange rate cover. "That proportion has now decreased," says Mr Marangone.

The flexibility of Coface's exchange rate products has increased in line with demand. In 1992, the organisation introduced its CIME policy which allows clients to benefit from favourable movements in exchange rates during the term of their contracts. The response has been positive. "It is more flexible and obviously we are anxious to gain from currency movements," says one customer.

But some companies feel there is room for further improvement. "At the moment we can receive a maximum of about 70 per cent of any currency gains," says Mr Marangone. He believes it should be possible to receive a higher proportion of the profits.

Coface has also become more flexible and responsive in its core credit guarantee operations. A series of marketing efforts, which have included greater contact with clients, has made the organisation more responsive. Similarly, rationalisation measures have simplified and accelerated the process of applying for policies. "They have made a lot of progress, and become much more dynamic," says Mr Hervé Bazire, head of international affairs at the French operations of Otis, the elevator manufacturer.

He believes, however, that more can be done to smooth dealings between Coface and its clients, particularly where the contracts are relatively small. "Coface is still a very big organisation and is very competitive on big contracts," he says. "But we don't do very big contracts, perhaps between FFr200,000 and FFr300,000 each, and there is still a lot of bureaucracy which adds to the cost."

The nature of Mr Bazire's business means that he is interested principally in Coface's short term credit guarantees. For periods above three years, medium term guarantees, the clients and the contracts tend to be larger.

For such customers, Coface is regarded as a strong competitor in the international credit guarantee market. An executive of one French-based multinational company says that Coface is often preferred to rivals such as Hermes of Germany or Britain's ECGD.

With respect to credit risk analysis, Coface's operations have been strengthened by its process of international expansion over the past few years. The French organisation now has operations – either through minority or majority stakes – in countries ranging from Ireland to Argentina. This process is welcomed by many clients. "With competition in our traditional markets so tough at the moment, we are being forced to diversify, to look for new customers," says the export manager of one manufacturing company. "We are often strangers in these markets so we have to use Coface to give us information about our potential partners."

■ FORFAITING

On the increase

Jon Marks sees more scope for a specialist form of financing

ONE form of specialist trade funding – forfaiting – could provide an increasing source of support for exporters this year.

Forfaiters, usually operating from a separate unit within a bank, provide non-recourse finance to exporters seeking to boost and secure foreign cash flow. The good news is that the range of export markets for which they are prepared to provide this service is expanding.

This essentially reflects forfaiters' perceptions of improved political and commercial risk in a number of key markets – principally in Latin America, the Asia-Pacific region, and eastern Europe. Funding for deals in Brazil, China and Slovakia have all featured in forfaiters' books in recent months.

Moreover, forfaiting is also providing a way in to markets as difficult and diverse as Romania, Vietnam and Peru. Forfaiters provide exporters with non-recourse finance (essentially funds which are only repayable in the event of supplier default) by buying trade debts from the exporter at a discount. The debts are guaranteed (or, in technical parlance, avalised) by an acceptable bank.

But despite the guarantees – and the additional practice of managing exposure by selling debt paper in a secondary market – forfaiters must closely monitor country risk developments. Happily for exporters, forfaiters' risk antennae are detecting a growing number of positive signals.

Brazil is emerging as an increasingly acceptable risk with some fundings extending for up to five years. Forfaiters are encouraged by the country's growth rate (over four per cent forecast as the final figure for 1993), growing foreign reserves (now around $24bn) and positive current account flows.

Brazil is indicative of a generally improving Latin American risk. "Levels of Latin American business have gone from minimal to significant," says Stephen Rothwell, a director of London Forfaiting Company (LFC). A leading Zurich-based forfaiter agrees. "The markets have totally opened up for Latin America," he says. China is a mounting attraction among Far Eastern risks.

Providing transactions carry the guarantee of a leading state bank – such as that of the Agricultural Bank of China which, for example, has avalised a five-year deal arranged by West Merchant Bank – forfaiters are happy to help fund the country's vast imports of capital goods.

The Czech Republic, Hungary and Poland are key eastern European markets where forfaiters are now more likely to provide funding. "There has been a deepening in the market in front-runners in eastern Europe," says Mr Rothwell.

☐ FORFAITING RATES: PAGE 23

☐ LETTERS OF CREDIT: **ANALYSIS AND CREDIT WATCH**

An inherent flimsiness

UK exporters are currently losing £180m a year because of letters of credit which fail to ensure payment, writes **Mark Runiewicz**

Letters of credit (l/cs) are commonly regarded as a secure method of payment but, since payment cannot be guaranteed, many banks do not accept them as security for advances.

The protection afforded by an l/c can easily be lost when exporters do not strictly comply with its terms. Moreover, there is the additional question of country risk. All the compliance in the world will not guarantee payment if a country runs short of foreign exchange.

For example, payment delays of up to a year are currently affecting Iranian trade paper, *including l/cs backed by central* bank guarantees. Currently almost 70 per cent of documents presented by UK exporters under l/c are rejected due to a lack of compliance. This costs exporters around £180m per annum in lost goods and additional expenses.

Moreover, the figure is likely to rise this year following the introduction of significant revisions of the international rules which govern l/cs – the so called Uniform Customs and Practice for Documentary Credits issued by the Paris-based International Chamber of Commerce (ICC).

The new rules, known as UCP500, came in to force at the beginning of January this year and involve a cluster of technical changes. For example, there is a new regulation that a bank which confirms an l/c *can withdraw its confirmation if the l/c's* expiry date is subsequently amended.

Many companies engaged in international trade will probably be unaware of UCP500 and thus the number of discrepant presentations will rise further, along with the associated costs to exporters. Ironically, many companies insist that orders will only be dispatched when they receive an irrevocable l/c without checking their success rates in presenting correct documentation to banks.

Many exporting companies fail to have any input into the wording of the l/c and fewer still understand the crucially important difference between an l/c payable in the exporter's country and one payable in the importer's country.

This can have potentially significant financial repercussions. For example, a UK company recently received an l/c from Hong Kong valued at £350,000. Documents had to be sent to the bank in Hong Kong for payment. The goods were shipped on November 2, 1993, and documents submitted to the UK advising bank on November 9 and forwarded to the buyer's bank in Hong Kong on November 11. The UK company was reimbursed on December 2, some 21 days later.

The exporter had two options on November 9: to sell the documents to the UK bank which would charge interest at 7.5 per cent (2.5 per cent over UK base rate) for a period of 28 days to allow for any delays in receiving the payment, generating a cost of £2,014, or to await *receipt of the proceeds from Hong Kong* and fund the waiting period from working capital. Neither option would have been required had the l/c been payable in the UK.

Many companies fail to specify the type of l/c which would be most advantageous to them or, alternatively, build the negotiation costs into the sales price. Also many exporters do not have a clearly defined country risk strategy and often request the advising bank to confirm the l/c, which means the latter accepting both the buyer's risk and the country risk.

However, advising banks are under no obligation to confirm l/cs. Consequently exporters should ascertain if banks will accept particular country risks before they *request an l/c from* the buyer and not leave it until the l/c arrives. At that point it is often too late to redirect the l/c to another bank.

Essentially, in addition to being totally informed on technicalities of l/cs, exporters should adopt an organised strategy for their utilisation beginning with the fundamental question: "Do I need a letter of credit?"

While many exporters do not use l/cs when the latter would provide much-needed security, there is also another group which habitually uses *l/cs* in situations where they are unnecessary.

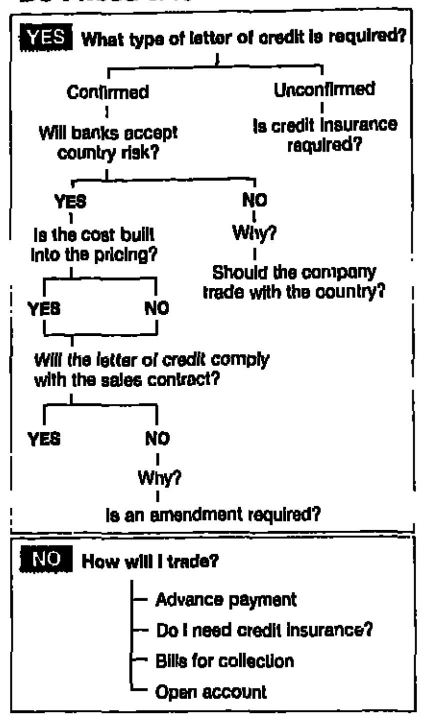
For example, an exporter recently requested a major UK bank to confirm an l/c issued by its South East Asian subsidiary, adding an additional £350 in *avoidable bank charges,* given the minuscule risk involved. If an exporter decides not to use an l/c, it has a variety of other options available, including payment in advance, export credit insurance and straight open account trading.

If, on the other hand, it indeed decides on the l/c option, it must then additionally address other questions, including whether *the l/c will be unconfirmed or* confirmed and, if the latter is the case, will banks accept the associated country risk?

The flow chart *(above)* covers some of the areas that exporters should consider when seeking an l/c. It is designed to reduce some of the areas which cause discrepancies and to assist exporters in obtaining the security that letters of credit are designed to provide.

☐ *Mark Runiewicz is trade finance consultant of the Bank Relationship Consultancy, London (tel: 071-283-5454)*

Do I need a letter of credit?



Oil states hit a sticky patch

The credit standing of Iran and a number of other oil producers is being undermined by low oil prices, says **Jon Marks**

The slump in oil prices to a five-year low is bad news for companies doing business with hydrocarbons producing countries. These include some markets where the needs of growing populations and ambi*tious development programmes have* attracted substantial financing, but where ongoing or potential payments problems are now driving some exporters away.

Oil price worries have compounded the concerns of exporters and creditors about IRAN, whose backlog of letter of credit (l/c) payments continues to mount. The weak oil market also bodes ill for NIGERIA'S mounting trade debt arrears, as do recent reversals of market-based reforms which have upset the International Monetary Fund and other lenders.

Low prices have cut ALGERIA'S projected oil and gas income for 1993 by an officially-estimated $1.5bn, raising new doubts about the country's ability to meet payments, despite Algiers' strenuous efforts to do so and thus avoid a multilat*eral rescheduling. Even wealthy GULF* STATES have seen their credit ratings reduced. European export credit agencies (ECAs) generally report tightening terms *for major producers, such as SAUDI* ARABIA and KUWAIT.

IRAN has now arranged bilateral refinancings of its trade debt with France, Germany and Japanese trading houses, but its payments problems look set to drag on into 1994-95 with arrears now estimated by leading credit insurers at $7bn on debts of around $20bn.

Delays of around one year are widely reported by banks and are affecting an ever wider range of paper, including l/cs carrying central bank guarantees. In recent negotiations, Tehran has asked for a two-year rescheduling of bilateral debt repayments, compared with one-year in the first accords, with French and German banks. It rejects a multilateral Paris Club rescheduling.

The situation, meanwhile is complex and experience is mixed: some arrears, such as those insured by Japan, have been reduced recently.

While many exporters are losing heart over mounting arrears and ECAs including Hermes of Germany have started paying indemnities, several companies with regular export contracts report their payments remain on time. However, they are concerned about their clients' ability to finance future sales.

ALGERIA continues to make prompt payments on its $26bn external debt, according to bankers in Paris, London and Tokyo. This is despite repayments exceeding $9bn in 1993 and bankers' estimates of a prospective debt service ratio of 83-85 per cent. According to a leading French bank, there are, unusually, no arrears - indeed, payments have been brought up to date in recent months.

Despite its good payments record, *Algeria is being starved of credit as banks* and ECAs pull back. In the early 1990s the country accounted for an estimated $3bn in annual l/c transactions alone and drew in much more still from supplier credits. Many ECAs, like the UK's Export *Credits Guarantee Department (ECGD),* have effectively suspended cover, or – like major creditors such as Coface of France and SACE of Italy – have reduced the amounts available.

Short-term credit is now the rule, with *country limits generally constrained.* L/c confirmation is problematic, with leading French, Italian and Belgian banks offering the service only in selected cases. In London, UBAF Bank offers confirmation for deals of up to 360 days.

NIGERIAN external debt arrears have reached $6bn and are set to continue to rise while oil prices stay low. This is severely constraining ECA cover. Nigeria has long been difficult for exporters, with problems including the presence of fraudulent l/cs, regularly offered to the market. Despite these drawbacks, flows of short-term trade finance – usually on restricted confirmed irrevocable l/c (CILC) terms – have been maintained to established clients.

Maturities are short, with 180-day sight *drafts and CILC business the norm,* Standard Chartered reports. Cash cover is usually required before confirmation. Nigeria is on the list of UK national interest markets, which are eligible for commercial short-term insurance (usually provided on CILC terms) reinsured by the state. Confirmation is best through leading banks, including Union Bank, United Bank for Africa, First Bank of Nigeria, in which the UK-based Standard Chartered Bank has a stake, and Nigeria International Bank.

ANGOLA'S interminable civil war has undermined the south-west African oil producer's credit rating, but it is still considered a UK national interest market for CILC reinsurance. Other national ECAs are active in oil projects, as are Swiss and *some other banks whose operations are* structured as oil major risk (rather than country risk) with payments secured against export receivables paid into escrow accounts. Securing other forms of commercial finance is highly problematic, with little appetite even among those most interested in Angolan business, such as Portuguese and South African banks.

Export and credit collection survey

Country	Exchange Delays (months)	Collection Experience	Most liberal Suggested Terms	Country	Exchange Delays (months)	Collection Experience	Most liberal Suggested Terms
Australia	2	Good-Fair	OA	Mexico	3	Fair-Good	30/SD
Brazil	3	Fair	ULC	New Zealand	2	Good-Fair	30/SD
Canada	2	Good-Fair	OA	Nigeria	4	Fair	ULC
Chile	3	Good-Fair	30 SD	Oman	3	Good-Fair	SD
Egypt	3	Fair-Good	ULC	Pakistan	2	Fair-Good	ULC
Ghana	3	Fair	SD	Philippines	2	Fair	ULC
Hong Kong	2	Good-Fair	SD	Saudi Arabia	3	Fair-Good	SD
India	3	Fair-Good	ULC	Singapore	2	Good-Fair	30/SD
Indonesia	3	Fair-Good	SD	South Africa	3	Good-Fair	SD
Israel	3	Fair	SD	Thailand	3	Good-Fair	SD
Jamaica	4	Fair	ULC	Trin. & Tobago	6	Fair-Good	ULC
Japan	1	Good	90/SD	Turkey	3	Fair-Good	SD
Kenya	4	Fair-Poor	ULC	UAE	3	Fair-Good	SD
Korea S	2	Fair-Good	SD	US	2	Good-Fair	60/SD
Kuwait	2	Fair-Good	SD	Venezuela	3	Fair	ULC
Malaysia	2	Good-Fair	30/SD	Vietnam	5	Mostly l/c	ULC

Footnotes: 1. OA = Open Account; ULC = unconfirmed letter of credit; CLC = confirmed letter of credit; SD = sight draft; 30/SD = 30 days sight draft. 2. Exchange delays refer to the time taken from the due date for the importer to deposit local currency with the central bank or other authorising body and for foreign currency to be deposited with the exporter. 3. Collection Experience refers to the risk attached to exchange delays. 4. Experiences can vary considerably, depending on the individual's relationship with buyers, the type of goods involved, etc. 5. All the above countries appear in the UK Department of Trade and Industry's List of Target Markets.

Source: Financial Times International Trade Finance, a newsletter published every two weeks by FT Business Enterprises

☐ DISTRIBUTION IN EUROPE: **TRUCKERS' DILEMMA**

New Year shakeup in Europe

The deregulation of Europe's haulage rates is a boon to exporters. But truckers claim it will put the skids under them, says **Tony Bush**

Any German entrepreneurs considering New Year resolutions will know *that one is not to become a haulier.* Deregulation of the country's trucking business was to come into force this month and could cause mayhem, especially among smaller operators, as rates are predicted to fall by up to 30 per cent.

Until now, the industry has been protected by the government, which set fines for shippers seeking discounts or transportation companies giving them.

Whilst this staggered dismantling of protection will be good news for shippers, who will be able to buy their transportation more cheaply, it is likely to wreak havoc among truckers already contending with an economy in recession.

As if that were not enough, they will still have to continue to fight off competition from hauliers in the Netherlands, who *are recognised as being the most innovative* and entrepreneurial truckers in Europe.

The Dutch internal market is small but a big proportion of GDP is accounted for by transportation. The industry gets strong government support, including what are said to be the most lenient internal regulations concerning size and weight limits.

The government also actively promotes the Netherlands as a European distribution centre, making much of the fact that if a 500-kilometre radius circle were drawn around Amsterdam it would contain 70 per cent of Europe's GNP.

Like Belgium, the Netherlands transport industry also benefits from the presence of the European head offices of many multinationals. *Forty-six per cent of them are in* one of these countries.

Some companies have Benelux distribution centres, but the practice is fairly uncommon. They generally use either Belgium or The Netherlands and, once again, *the Dutch benefit in that the majority of* those head offices are in Holland.

An increasing number of companies are clearly adopting a pan-European outlook, using regional distribution centres. Brian Bolam, managing director of TNT Contract Logistics (Europe), based in England and the Netherlands, said, "Despite European governments' lack of progress in developing the market as a single entity, businesses are making it happen. Competition has made companies seek economies of scale."

Scandinavia has been particularly resourceful in this respect with the creation of Nordic Distribution Centres. Now it is planned to have a similar centre in the EU to service Scandinavian trade within the Single Market. The location is still undecided, although it is likely to be in Denmark. Industry experts first have to consider the "physical flows", ie, a study of inbound and outbound deliveries, looking at where they would be coming from and where they would be going.

But, as the system of regional distribution centres spreads, another development is also occurring: specialisation. David Howes, managing director of Christian *Salveson Distribution, which has a pan-*European network, said that, increasingly, the bigger companies in his field were setting up centres to cater for particular products.

They already exist for food, textiles, *industrial products* and hi-tech goods, and Christian Salvesen itself has five centres in Belgium and Holland set up just to handle frozen and chilled foods. Howes believes that exporters approaching four or five multi-national operators for a quote should also be asking about their particular strengths.

Among countries with the biggest distribution problems are Ireland and France. Ireland is a major centre for selling into mainland Europe largely because of the number of big US *companies that set up there attracted by* subsidies. But, because of the country's geographical location, distribution is a problem.

Some companies based there have now established central European depots with a number of satellite warehouses. Final shipments are then made in dedicated vehicles or by express carriers.

However, among smaller companies, it is often still the practice to book a "backload" to the continent.

France's problem is that it has an unwieldy and fragmented trucking industry consisting of 35,000 operators, most of them with fewer than five trucks.

No other European nation has so many operators and if the industry is to be truly competitive it may have to be less nationalistic in outlook. Its future lies in joint ventures with operators in other countries or, at least, looking for more cross-border business.

Exporters in Spain, Portugal, Greece and even Italy are hampered by the distances their goods have to travel to central Europe and operators know that return loads are not always easy to find.

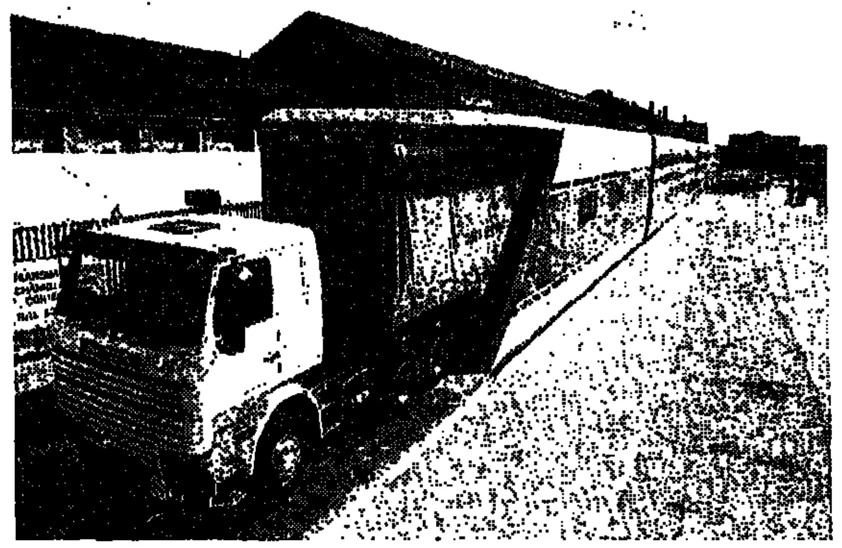
Shippers take advantage of the fact that, at the time of the Spanish orange harvest, when the fruit has been brought north, some operators will sell southbound carriage for next to nothing.

Trade to and from Italy is also affected by hardening *attitudes towards hauliers* in Austria and Switzerland. Both countries have become increasingly fed up at being used as arterial highways and have imposed a number of restrictions on night time and weekend driving and the size and weight of trucks.

One of the most effective and advanced countries where distribution is concerned is Britain. Knowledge of regional distribution was gained in the UK more than 20 years ago thanks to the policy of the big supermarket chains, which hit on the whole concept of centralised inventory holding and frequent deliveries to their retail outlets.

But more than a highly-sharpened expertise in regional distribution will be required in Europe as it heads towards the next *millennium. Freight traffic within the* EC alone is forecast to grow by 40 per cent by the end of the decade and the present infrastructure is already groaning.

But, as Brian Bolam of TNT points out, "It takes 15 years to take a mile of railway *from thought to actuality".* So time is not on the side of the European transport industry.



Rehearsing for the opening of the Channel Tunnel: distributors' margins are getting tighter

Swedish furniture on the move

☐ Continued from Page 16

Kinnarps UK is separately owned from the mother company in Sweden but has been selling Kinnarps products for 20 years, accounting for the bulk of existing exports. That is set to continue, but Kinnarps is setting up wholly-owned sales operations in France and Germany.

Kinnarps admits that its strategy is expensive, especially in the the initial stages. Mr Jarlsson says the company is spending between SKr50m and SKr100m a year on development costs, including keeping its production at the forefront of technological development. But the company has eschewed acquisition or franchising as the way to expand abroad because it wants to keep full control of its operations, from manufacture to customer service.

As Kinnarps undertakes its export drive, it provides an interesting insight into the *regulatory climate now facing Swedish* companies as they seek to move into European markets. From January 1 this year, Sweden – along with fellow Efta members Norway, Finland, Iceland and Austria – gained freer access to European Union markets through the Efta-EU European Economic Area agreement.

Kinnarps says this has provided immediate benefits. One is that it is much easier and cheaper to base Swedish staff around EU centres, thanks to the free labour movement section of the EEA deal. Mr Jarlsson says the time and costs involved in securing work and residence permits for expatriate staff were significant.

Another big potential bonus is the right now gained for Swedish companies to bid for public sector contracts in EU countries. Last year, Kinnarps achieved the first of these for the company when it won a contract to fit out the British Department of Health offices in London. It hopes more public contracts will now follow.

Until Sweden's application for full EU *membership is successful, however,* Kinnarps faces the barrier of customs bureaucracy which its EU-based competitors do not. The cost of completing customs documentation amounts to between one and two per cent of export value, according to Mr Persson, a figure that translates into a weighty SKr10bn a year for Swedish industry as a whole.

Aside from that, Kinnarps chief concern over export costs is the diversity of standards application across the EU. In line with most manufacturers in Europe, the company looks forward to the day when standards are harmonised within the EEA.

☐ COUNTERTRADE FOCUS: TRENDS IN EAST-WEST TRADE

Dried milk for Egypt's onions

Helen Mingay describes some of the intricate multilateral deals, involving several countries, pulled off by international traders

Six years ago, David Little had 15 colleagues dealing with countertrade. Now he sits alone, holding the title of managing director of countertrade at Rank Xerox, but managing and directing just himself.

Before the collapse of communism in eastern Europe, Rank Xerox organised extensive countertrade transactions in the area, particularly in Poland and Bulgaria. However, political and economic changes across eastern Europe have resulted in Rank Xerox establishing a network of dealers covering the entire region, who sell and service copying machines on conventional commercial terms.

There have been a few countertrade deals in Romania, but generally Rank Xerox has found that the east European purchasers are able to provide hard currency to purchase their machines. "We have had an extremely good year," says Mr Little. "Our sales have gone up dramatically, well over what we planned."

Even in Romania, where there is a chronic shortage of hard currency, Rank Xerox finds that buyers are often somehow able to convert their money locally into hard currency. There are always exceptions. Rank Xerox has, for example, arranged countertrade agreements with Kazakhstan and Uzbekistan, where it made counterpurchases of raw cotton as the basis of payment for copying machines.

Maurice Banfield, formerly of Rank Xerox Kazakhstan office, described the project as being "60 per cent goodwill and 40 per cent for profit". Meanwhile the food company Salads Etcetera Holdings has set up complex arrangements in Poland, which meet its individual needs.

The company, based near Hull, is setting up an office in Warsaw, and expects to export £10m of produce in the next two or three years. Although the Poles will pay in hard currency for some of the products, managing director Paul Wright has been able to expand the size of the contract by securing countertrade arrangements.

Salads Etcetera has contracts with Egyptian suppliers, who ship salad onions, new potatoes and oranges to the UK. Egypt needs to buy milk powder, and Mr Wright has arranged for Polish producers to supply the Egyptian market with dried milk powder in exchange for UK products.

This arrangement allows the UK company to make full use of its transport fleet. Lorries will drive to Poland full of salad produce and return with dried milk powder. Vessels then leave Hull for Egypt laden with milk powder and return to the UK with Egyptian produce.

"We are interested in developing a serious long-term business in Poland," says Mr Wright. "We have the technical expertise to help the Poles. If we did not have a market for the products we could not do it. The Egyptians are required to buy the milk powder, and we are also very interested in developing some business there."

Mr Wright is looking to develop further business in Poland, possibly through joint ventures and in other areas of the food distribution business. He adds that the initial contract has full financial guarantees. The Polish office is seen as a springboard for business in other east European countries, particularly Ukraine, which has large-scale capacity in salad production, as well as Hungary, Romania and Bulgaria.

Currency instability in the countries of the former Soviet Union has also fuelled some countertrade in the region. Over the past two years, Russian businessmen have organised the exchange of aluminium for sugar and countertrade in raw materials, such as titanium, bauxite and timber. Many of these commodities found their way out to the west through the extremely porous Baltic borders. The Russian government has increased border controls, and as the stockpiles of these materials diminish, supplies could begin to dry up.

Bill Newman, assistant general manager at Moscow Narodny Bank, pointed out that western bank deposits from the former Soviet Union doubled last year from $9.1bn to a recorded $17.9bn in June 1993. "My personal guess is that most of that is legal", he says. "In the past hard currency was retained outside illegally, but now people can put it into bank accounts in Russia. If they stabilise the rouble, then I think the money would go back quite quickly as investment."

Illegal or not, the scale of this outside investment indicates that hard currency has been generated, which should reduce the need for countertrade in the future.

Meanwhile, Moscow Narodny Bank has been instrumental in organising an innovative countertrade deal with Russia secured by the British Health Care Consortium, under the chairmanship of Sir Ronald McIntosh in Ekaterinburg.

After the break-up of the Soviet Union, Sir Ronald saw opportunities for financing required imports to resource-rich regions, through the sale of local commodities.

Export licences have to be acquired for such exports, but the consortium deals directly with the Urals regional government, rather than going through Moscow. The collapse of the Soviet Union means that local enterprises do not have to send all their output to fulfil state procurement orders as in the past.

This was where Moscow Narodny bank came in. The bank advises on the selection of the most saleable products, obtains the most advantageous prices and handles the hard currency management on behalf of the regional government. The consortium, is then paid through the hard currency generated by the sale of precious minerals and metals.

Mr Newman says that the bank is now trying to broaden the allocation of goods to service the contract for 1994, as stockpiles of the non-ferrous metals are beginning to run down. The bank has gained the regional government's trust and is able to secure the best prices for their goods because of the expertise in the market, he says. The consortium consists of six core companies: Glaxo, Wellcome, Zeneca Pharma, Amersham International, Smiths Industries Medical Systems and Vickers Medical, which also does business elsewhere in the former Soviet Union, on their own behalf.

For instance, Glaxo does limited countertrade in other countries in the region, but generally through a third party. Jane Penn, the operations manager for the consortium says that the group is now discussing new contracts in the Greater Urals and Kazakhstan and will be venturing into Eastern Siberia this year.

But problems arise when organising countertrade. The British Food Consortium, for example, has attempted to instigate contracts in Ukraine, to be paid for by the export of steel, but it was unable to by-pass internal supply problems. Now the group is looking at three regions in Russia and also in Kazakhstan, where it hopes to establish contracts on a similar basis to those enjoyed by the British Healthcare Consortium.

Countertrade is still used for trade between east European countries, but the collapse of the Soviet Union has led to severe difficulties. At the Hungarian International Bank's countertrade subsidiary in Budapest, Hibex, an official confirms that deals are scarce. "We do get enquiries for spare parts, but when we ask if they can pay or exchange a commodity, then there is no answer," he says. "It is very difficult to obtain reliable offers."

Weekend market in Kiev, Ukraine: currency instability has enhanced the value of goods over money (Picture: James Hill)

☐ EXPORTER PROFILE: KINNARPS of Sweden

Long price freeze bears fruit

Sweden's top maker of office furniture has outgrown its home market and pins its future on overseas expansion, reports Hugh Carnegy

Tucked away in what was once a small village from which the company took its name, Kinnarps, Sweden's leading manufacturer of office furniture, was for years content to concentrate on its home market and Norway.

But just as the company's huge 93,000 sq metre factory has expanded to dominate the village in the countryside 120km east of Gothenberg, so Kinnarps (pronounced Shinnarps) has outgrown its domestic market and is now embarking on a big export drive to sustain growth and competitiveness.

The crunch came with the sharp Swedish recession of the past three years. Before then, a booming economy, in which commercial property raced up in value, allowed Kinnarps to more than double annual sales from SKr415m in 1985 to SKr875m in 1990. Since then Kinnarps, a private company still owned by the family that founded it 50 years ago, weathered the slump better than many.

Despite a 50 per cent drop in the office furniture market in Sweden over the past three years, Kinnarps used its financial strength to good effect. By freezing prices for four consecutive years, it has increased its market share in Sweden, kept sales on an upward trend and stayed in profit.

But the days when Kinnarps had a return on capital of approaching 30 per cent and won an award (in 1987) as the best company in Sweden, have long gone. The impressively automated factory, with more than two-dozen driverless robotic fork-lift trucks criss-crossing the plant from delivery area, to assembly to despatch, is only working at about 50 per cent capacity.

The strategy has therefore become crystal-clear. "Our future expansion must be outside Sweden, because this is a limited market," says Mr Sören Persson, brought in in mid-1993 to direct the new export drive. Mr Henry Jarlsson, the chief executive and eldest son of the founders Jarl and Evy Andersson, says: "We will concentrate on Europe where deliveries can be made from the factory here. We like to ship direct to the customers where we can. The UK, France and Germany will be the main centres. That is where we have to be very, very strong. Around these we will serve the other countries."

The aim is that exports should account for 50 per cent of turnover – which last year totalled around SKr1bn – within five years, compared with 30 per cent today. To do that, Kinnarps needs to take a three per cent market share in Europe. "We aim to be one of the leading actors in the office furniture market in Europe in five years – and no company will have as big a share of their home markets as Kinnarps in Sweden and Norway," says Mr Persson. Kinnarps' selling points are its expertise in wooden and ergonomically-developed furniture, its "green" production and its office planning service.

Kinnarps has a long-established outlet outside Sweden and Norway – in Britain.

☐ Continued on Page 17

□ BRUSSELS: **HARMONISATION OF CREDIT COVER**

Draft directive offers no joy

Europe's exporters fear that current negotiations will leave them competitively weaker than Japan and the US, writes Paul Melly

This spring promises to be tense for Europe's top project exporters and the small companies that win business on their coat-tails.

Negotiations in Brussels will decide the shape and cost of government credit cover central to their ability to win orders overseas, in the face of tough international competition.

A draft European Commission directive is expected before the summer. Official export credits play a key role in financing the sale of big capital installations, such as bridges, power stations and metros. Government insurance allows much longer repayment periods than a commercial bank would offer, especially for important, but potentially risky markets in the developing world and the former communist bloc.

The European Union is now aiming to harmonise existing national systems, so that exporters in all member states enjoy broadly similar levels of state support. But industrialists and their bankers fear that the new system may leave them at a disadvantage vis-à-vis their rivals in Japan, Canada and the US, who will not be bound by the EU agreement.

The most contentious suggestion is that national export credit agencies should be limited to providing 95 per cent insurance cover for buyer credits, leaving the exporter or his bank to take the remaining slice of risk.

The UK, where the Export Credits Guarantee Department (ECGD) currently provides 100 per cent cover, has strongly opposed this idea, pointing out that it will leave European businesses at a disadvantage as non-EU rivals will probably continue to cover 100 per cent.

Banks and manufacturers already have to share the risk by arranging finance of the initial 15 per cent front-end contract costs between themselves and the foreign buyer.

A delegation of industrialists from six EU member states, organised by the British Exporters Association, visited Brussels in mid-January to outline their concerns. Commission officials agreed to pass details to the inter-governmental commission which has been discussing export credit harmonisation. The delegation included officials from some of Europe's leading capital goods exporters, including Siemens-Plessey (UK and Germany), Cegelec (France and Belgium), Dragados (Spain) and Daf and Philips (Netherlands). Samuel Montagu, part of the HSBC group, also participated.

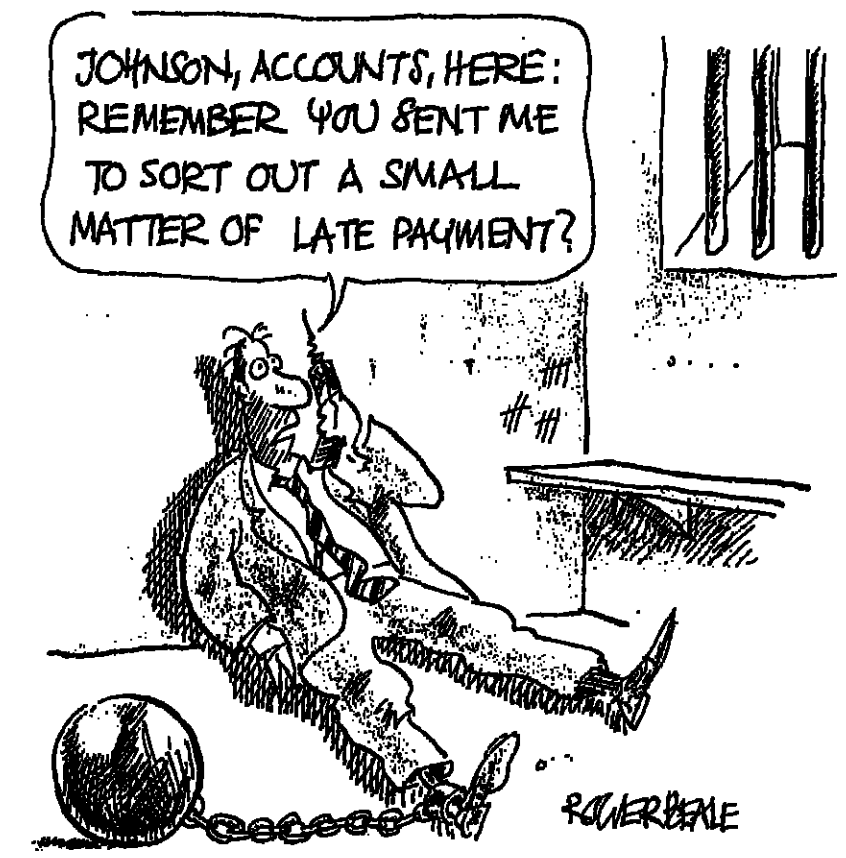
It pressed officials for a number of features to be incorporated into the new directive. These included:

- routine 100 per cent cover, rather than 95 per cent;
- an independent system of risk analysis to reach common agreement on the risk rating, and thus the premium level, to be accorded to each foreign market;
- common rules on bank provisioning and capital adequacy cover;
- common rules for the proportion of foreign components that can be covered;
- and common rules for the scope and structure of insurance cover, exchange rate risk cover and claims waiting periods.

The proposal to limit all cover to 95 per cent of insured business is a worry not just for UK companies, who would see their cover drop from 100 per cent, but also for French and Italian concerns at a time when many banks and industries are due to be privatised and thus lose government backing.

Spanish business is also worried, because it has difficulty competing in Latin America against US rivals who enjoy 100 per cent cover from the US Export-Import Bank. The Germans had been initially preoccupied mainly with the shift by Hermes, their official export credit agency, from the single premium system to one which could set higher rates for riskier markets. But they are now thought to be increasingly concerned about the structure of cover as well.

Sources close to the negotiations concede that, because they have been held under the aegis of the Council of Ministers rather than the European Commission, they have been shrouded in a degree of confidentiality. Consequently, consultation with industry may not have been sufficient.



The talks have been driven by finance ministry officials, with a tendency to go for the lowest common denominator, pulling together the cheaper aspects of the various national export credit systems. The end result, exporters argue, is a set of harmonisation proposals that is rather less supportive for industry than most of the existing national schemes.

The confidentiality issue notwithstanding, sources close to the negotiations argue banks and industry have been slow to tell politicians and national administrations what they wanted the harmonised system to look like. The present attempt to reform export credit began in mid-1991 and both governments and EU international trade commissioner Sir Leon Brittan are anxious to reach an accord before long.

The chances of business forcing fundamental changes at this stage seem limited, although some amendments can probably be made. It may be particularly hard to win a change of tack on the 95 per cent issue, as only the UK currently offers 100 per cent cover.

Samuel Montagu has calculated that the cost of taking on this extra five per cent risk and making provisions against it could be as high as £1.5m on a £25m export contract in a fairly high risk market. Even for an export to a country which posed no big payment worries, the cost of financing the extra slice could be £430,000. These costs would be passed directly to the exporter in the form of extra charges.

The other issue at the heart of the Brussels talks is the level of premiums charged by national export credit agencies for providing medium-term cover. At present there are still wide disparities. At one extreme, Germany sets a flat rate charge for covering exports to any country in the world. This is in contrast to the UK's ECGD, which uses a sophisticated risk assessment system to set premium levels for each individual market.

Some governments, such as Italy, continue to charge fairly low rates, even for difficult markets, because they see export credit as a justifiable form of state support for industry. In contrast, ECGD, with a mandate to break even, had set fairly high charges; but over the past two years the UK government has allowed it to make a series of cuts – the latest in the November budget – which have brought most premiums close to the European average.

High premiums for markets recently brought back on medium-term cover, such as Argentina and Slovakia, have been quickly reduced; banks hope for a similar approach to Vietnam, which is expected to be brought on-cover in the near future. No one expects EU governments to agree a single set of premiums to be adopted by all agencies; but negotiators do hope to set some parameters, and Germany would certainly be forced to abandon its single premium system – something Bonn was preparing to do anyway.

One widely canvassed outcome is to copy the French model of categorising export markets into several risk groups. There would be EU-wide maximum and minimum premium levels for each category, while individual governments would be free to set exact rates within these bands.

The premium issue has become particularly important to exports because the scope for other forms of subsidy has been gradually pruned back. For example, the Consensus agreement embracing all OECD states has already banned interest rate subsidies for export sales to developed and better-off developing countries. Meanwhile, the scope to subsidise export bids by incorporating official development aid into the finance package (as an add-on grant or to soften loan rates) has also been limited by the domestic budget strains in western exporting countries.

Most governments are not in a position to increase aid spending significantly at present. With domestic demand squeezed by recession, governments have been under pressure to help industry to capitalise on these overseas project opportunities, which tend to be in the high tech sectors, such as process plant and power engineering, where western companies can still match competition from the new Pacific Rim industrial powers.

With little room for direct subsidy, governments have sought other ways of helping exporters. Canada, for example, has been redrafting the terms of reference for its Export Development Corporation (EDC). The aim is to allow EDC more room for manoeuvre to develop flexible and competitive financing packages that will help its export clients to win more business.

In the UK, President of the Board of Trade Michael Heseltine and Minister for Trade Richard Needham have successfully persuaded the Treasury to approve increases in ECGD cover for large and high risk markets of between £2.8bn and £3.2bn for each of the next three financial years.

This represents a fundamental reversal of the policy which prevailed before the last election, when both the Treasury and Mr Heseltine's predecessor, Peter Lilley, were deeply sceptical about the value of official export credit support. This has coincided with the relative weakness of sterling and a sharp drop in both inflation and interest rates to put project exporters in a much-improved competitive position.

□ COUNTERTRADE FOCUS: **AUSTRIA'S PIVOTAL ROLE**

Vienna is still the crossroads

In an echo of its past, Vienna is still the cradle of numerous bizarre barter arrangements between eastern and western Europe – and far beyond. Michael Lindemann reports

When Gerhard Vogt heard that Indonesia was planning to use countertrade to boost its exports, he got on the first flight to Jakarta.

He arranged a meeting with the trade minister, presented his credentials, retired to the Austrian embassy and two days later drew up a countertrade proposal which was very quickly transformed almost word for word into Indonesia's counter trade legislation.

That happened in the early 1980s and since then Centrobank, where Vogt heads the board of directors, has cornered most of the booming countertrade business in Indonesia and nearby Malaysia.

Mr Vogt followed a long line of Viennese bankers who for decades have been among the acknowledged masters of countertrade in all its many variations. Vienna's countertraders learnt their skills in the years after World War Two when product clearing became the standard form of business between east and west at a time when cash remained in short supply and Communist economies needed plant and knowhow to rebuild their industries.

Straddling the divide between western clients and Comecon producers desperate to improve their export statistics, Viennese trade-oriented banks worked as go-betweens constructing deals so fanciful that, in one case, rock breaking machinery was sold to the former Soviet Union and oranges were taken in payment.

Although Indonesia hardly fits neatly into eastern Europe, Mr Vogt's experience in prising open eastern countertrade markets made him a natural choice to assist Indonesia's trade minister. Other Viennese trading houses, such as Bank Austria's Handelsbank, do business in Indonesia and other areas of the Pacific, but Centrobank leads the way with up to $500m worth of business per year, almost five times more than it used to do within the former Comecon trading bloc.

While countertrading in Indonesia still involves straightforward barter deals – an exporter may, for example, ship industrial plant and receive payment in plywood – the trade with parts of Comecon have become more complex on account of the higher risk.

While some business in eastern Europe and many parts of the Middle East is still done through state-owned foreign trade associations, most of the countertrade is driven by regions of the former Soviet Union. Alternatively, they are single companies trying to break into western export markets or trade within what used to be Comecon, but lacking marketing or financing skills.

According to Helmuth Bohunovsky, a member of the managing board, Austria Handelsbank, many deals are now pre-purchases where the trade bank deposits the revenues from the imports in an escrow account before the western trading partner releases his goods to the exporter. More complicated countertrade deals are done through so-called blocked evidence accounts and involve vast amounts of field work to check the eastern partner's credentials, Mr Bohunovsky says.

City of deals: Orson Wells and Joseph Cotton in the The Third Man, set in post-war Vienna

Many of Vienna's smaller countertraders have gone under since the business became more complex and ceased to be the mainstay of east-west trade. Among bigger banks, Vienna Commerz, a wholly-owned subsidiary of GiroCredit, closed down its trading branch which handled standard barter deals in 1992, and now makes its money buying state and enterprise debts, providing pre-export financing and other devices necessary to bridge the gap between the mismatched markets.

"All of this is still countertrade," says Alexander Waldstein, the managing director of AWT International Trade and Finance AG, one of the oldest and best-known countertraders, which belongs to the Creditanstalt group. "In this case export finance is just an instrument to make it happen."

While some Viennese banks argue that business in the former Comecon area is now less lucrative because more currencies are convertible in countries such as Poland, Hungary and the Czech Republic, Mr Waldstein says that eastern Europe and the former Soviet Union nevertheless represent up to 80 per cent of AWT's business.

He admits that deals are now more complicated since the demise of the foreign trade organisations, where one visit was enough to clinch a massive trade. Now, he says, it is more a question of helping a Ukrainian company sell its products in Greece where it has never done business before.

Vienna's countertraders also argue that some business in the former Soviet Union reflects the fact that the senior positions in what used to be state-owned enterprises are still staffed by people who know nothing but countertrade. Growing economic problems in some areas of the former Soviet Union provide a further incentive for countertrade.

"Take the Ukrainians," says Konrad Reich, special projects manager at Vienna Commerz. "Now that they have run out of coupons (designed to replace the rouble) they have reverted to the only currency – goods," he says. Other bankers point to areas outside the former Soviet Union, including China where several Viennese banks are involved in countertrade transactions.

But after decades as the turntable between the two mismatched economic blocs, will Vienna remain the world's countertrade capital? Centrobank's Mr Vogt says that the old-school Viennese countertraders have died and that the necessary expertise can now be deployed anywhere in the world, rendering a particular geographical location like Vienna's redundant.

Others point to Dutch banks as notable countertraders, adding also that Berlin has taken advantage of its geography and is increasingly becoming a competitor to Vienna. Some also see London as another rival, partly due to its traditional role as a major commodity trading centre.

However, attempts by banks and others to set up specialist countertrade departments in the 1980s were not followed through as demand dissipated. Most Viennese bankers, however, are convinced that, as a launch-pad for emerging markets in the former Soviet Union, Vienna enjoys an advantage which it will maintain for several years to come, not least because of its excellent airline connections to the region.

They also agree that Viennese have contacts built up over decades and that the city's history at the crossroads of Europe has taught them to scheme and be flexible, making them ideal go-betweens in difficult markets worldwide.

"The Viennese are very complicated creatures," says Vienna Commerz's Mr Reich, telling the story of a German client who turned to the bank for help with a countertrade in Egypt.

"All they saw was a straight line," he said of the Germans. "We Viennese can see the line differently," he added, laughing. "It need not be straight at all – it could be baroque."

Experts know their value

□ Continued from Page 14

same line of business. The countertrade round tables provide an alternative first port of call to government departments. As the industry's network, they are in the best position to know who, if anyone, is in a position to dispose of unfamiliar goods or arrange trade financing for unfamiliar CIS companies – if not both.

The London Countertrade Round Table has 40 members consisting of a cross-section of companies using and offering countertrade services (small manufacturing industries, trading houses, consultancies, banks, insurance brokers, and a few multinationals). The annual membership fee is £40.00, and it can be reached via the secretary Alan Linger at Standard Bank, London.

The London CRT meets quarterly; it is also a member of the European Organising Committee, alongside the Munich and Eindhoven Round Tables, and ACECO; this body also arranges meetings. International equivalents include the Asian Pacific Round Table, their Australian and South African counterparts, and the largest body, the American Countertrade Association, which is organising the 1994 World Countertrade Conference in Philadelphia.

☐ COUNTERTRADE FOCUS: **DEVELOPING WORLD**

A different kind of market place

Goods swapping has been hit by economic changes, such as the fall of Soviet communism, writes **Paul Melly**. But it is far from dead

Talk to any trade finance house in the late 1980s and you were likely to find that it had a specialist countertrade department. Although very much an affair for exports, the technique was an important part of the banking repertoire, when it came to financing exports to the Third World or eastern Europe.

But changing economic policies, above all the loss of faith in centralised socialist systems, have pushed the whole concept of barter out of the limelight. Many bankers hardly ever handle countertrade deals now, and many developing countries are wary of the technique – Sudan even banned it late last year.

One could be forgiven, therefore, for thinking that countertrade was hardly used at all today in most of the developing world. The truth is more complex. Straightforward barter arrangements, with basic commodity exports shipped abroad in return for imports of industrial goods, are now probably less common, but there are still circumstances where countries opt for countertrade in some form: when they do so, this is often to support broad trading objectives rather than simply because they have run short of foreign exchange to pay for imports in cash.

In recent months a number of institutions took steps to encourage certain forms of countertrade. The Islamic Development Bank (IDB) has invited companies to propose deals in its member states, while Spain's official export credit insurer, CESCE (Compania Española de Seguros de Credito a la Exportación) has designed a special form of cover for these deals.

Several factors underlie the declining popularity of traditional barter among many Third World countries. They all reflect one basic fact – intense financial pressures that drive countries to maximise the foreign exchange they can earn from their exports.

That usually means selling them on world markets, for payment in hard currency. For example, Ghana, which used to swap cocoa for manufactured goods from eastern Europe no longer tends to do so.

The World Bank tends to discourage barter because it conceals the real costs entailed in trade. It is hard for an African country to know whether it is getting a fair price for its exports of, say, coffee, cocoa or bauxite, if payment is made in the form of goods. It is even harder to ensure that the goods obtained in return represent good value for money.

Changed political circumstances come into play as well, particularly the disintegration of the communist system in eastern Europe, and the declining popularity of so called-socialist systems in the developing world. Fluctuations in the price of commodities have also conspired to undermine the popularity of barter arrangements. During the 1980s, Uganda arranged large deals exchanging coffee for various imports. Several of these collapsed when the coffee price declined sharply, leading to disputes over whether Uganda was obliged to provide extra shipments to compensate for their reduced value.

Practical problems also led Nigeria to abandon attempts at oil countertrade in the 1980s. However, while such simple barter arrangements have fallen out of favour, there has been a steady growth in the use of "pre-export financings". These are bank loans made to countries which are secured against expected outbound commodity exports. They give countries access to hard currency much earlier in the production cycle. The money is often used to meet the costs of production and export – payments to farmers, purchase of fertilisers and so on.

Alternatively, it may be reserved for an essential import need, such as fuel oil. Proceeds from sales of the Third World exports – typically cocoa, oil or coffee – are paid into an escrow account in a Western financial centre and used to pay off the original loan.

Bankers Trust was a pioneer in the field, arranging several facilities for Tanzania; Grindlays is active in Zimbabwe. Other banks thought to have been involved include Union Bank of Switzerland, Chemical Bank, BHF (Germany) and ABN-Amro. Many others have been arranging minor transactions.

So far, the larger syndicated transactions have only been arranged for a limited number of countries with a strong export track record – such as Ghana and Zimbabwe. There are still risks, of course, even if these are less than in a traditional barter deal. Bankers are particularly worried about current oil price fluctuations. One says that he now looks for a 40-60 per cent safety margin on oil-based deals compared with only 25 per cent a year ago.

The Third World exporter's reliability and the quality of the promised end buyer also come into play. Countries with a patchy record may find that they are limited to relatively low levels of financing; on the other hand, a country with many other difficulties, but a strong reputation for reliable exporting, may be able to borrow funds on a scale it could certainly not obtain for conventional import finance. Take Nigeria. Says one banker: "Nigeria has a fantastic record in meeting its crude oil delivery commitments."

New versions of countertrade are also emerging in transactions between one developing country and another. These are partly a reflection of Third World nations' attempts to reduce their dependence on imports from the industrialised world. They are also born out of force of circumstances: sometimes a country has to import from whoever is prepared to supply on barter terms, because it lacks the foreign exchange to buy on the open market, or because it is trying to export products which are not yet fully competitive in international terms.

Many countries are unwilling to barter their traditional commodity exports because they know they can sell these for hard currency. However, as they develop an industrial base, they may use barter as a way of securing sales of manufactured goods which they know many world buyers would not yet be prepared to pay for in hard currency.

The IDB has begun to help with funding and guarantee arrangements for countertrade deals between countries in its member states, to assist them develop cross-border trade in manufactures and broaden their economic bases.

Another variant on the countertrade theme, popular among the more industrialised developing countries, is "offset". Normally, this is associated with the supply of advanced technology or military equipment from the West.

Countries buying aircraft or other high-tech goods on a large scale will often insist that this is counterbalanced by the injection of new foreign investment to develop their own industrial base. The technique has been widely used in south-east Asia and the Middle East.

For example, Malaysia is acquiring Swiss light aircraft know-how, as part of an offset related to purchases from British Aerospace. Hughes Aircraft Company of the US has promised offset production of components as part of a deal to supply Indonesia with two satellites. There is also an offset element to the recent sales by German-Dutch group Fokker of 15 passenger jets to Indonesian regional airlines.

In Saudi Arabia, British companies have become closely involved in industrial developments, as part of the offset programme related to the Al-Yamamah project, under which British Aerospace provides aircraft and support for the Saudi airforce. In the United Arab Emirates, agreement has been reached on the first batch of offset projects associated with France's sale of 390 Leclerc tanks and armoured vehicles to Abu Dhabi.

☐ COUNTERTRADE FOCUS: **HOW TO FIND A CONSULTANT**

When expertise is no luxury

Krystyna Krzyzak writes that countertrading is a costly as well as complicated activity. The services of specialist consultants are in regular demand, and they can be choosy about the deals they handle

Countertrading can be an extremely costly undertaking, absorbing anything up to 30 per cent of the value of the original export order. On top of that, many of the large specialists, including banks, would find the size of a countertrade deal proposed by a small or medium sized enterprise (SME) too small to contemplate.

Third party specialists can also be choosy. One consultant says that he charged a daily fee of $500-$600, which most SMEs would find prohibitive. Finding a specialist can thus be almost as frustrating as completing the export order.

The role of the outside specialist in countertrade transactions varies. It can, for instance, involve bringing a consultant to help negotiate the countertrade component of an export contract. Alternatively, the specialist may be responsible for assembling the entire arrangement or, more specifically, organising the sale of the countertraded product.

Locating or providing financing to make countertrade arrangements work are other key functions. The UK clearing banks were more helpful providers of countertrade services in the 1980s, the heyday of countertrade, when every leading financial institution had its dedicated unit.

Now many have scaled down their operations and will only arrange a deal if it is large enough. The banks may, however, for a finder's fee, put the company in touch with a suitable trading company that can handle the goods or commodities on offer. Ministries and departments of trade are another possible port of call.

The Projects and Export Policy Division at the UK's Department of Trade and Industry publishes a booklet, *Countertrade: a guide for exporters 1993/94*,4 which provides an overview of countertrade techniques, lists current countertrading policies and legislation throughout the world, including in some cases contact names, addresses and telephone numbers of relevant governmental bodies.

There is also a contact list of nearly 30 consultants, trading companies, bank units and political credit risk insurance services offered in the UK. The list is by no means comprehensive, and one company contacted denied all knowledge of the practice, but certainly in the case of the banks the time saved in being able to get through directly to the right person could cover the cost of the publication.

Meanwhile, since the clearing banks reduced their operations many of their switchboards appear to be under the impression that countertrading is part of the accountancy department.

Canada's Department of External Affairs, Germany's Federal Association of Wholesale and Foreign Traders, and Federal Association of German Exporters and the US Department of Commerce have also produced similar publications.

The extent of official support given to smaller companies depends more on the government's view of the state's role in economic planning than its attitude towards countertrade. Both the UK and the US view countertrade as contrary to free trading. As the DTI stresses, the department itself will offer general information about countertrade but advises exporters to seek professional advice.

France is more dirigiste and enthusiastic. In addition to its trade ministry's specialised countertrade department, the Bureau des Compensations, it established as far back as 1977 the Association pour la Compensation des Exchanges Commerciaux (ACECO), generally regarded as one of the world's best government-sponsored countertrade organisations. ACECO organises seminars, provides clearing arrangements, and runs a computerised data bank on national policies, legislation and useful contacts in French and English.

Lists and data banks are useful up to a point, and can narrow the field down to regional and industrial traders and advisers. Rarely to be found on lists are highly specialised consultants who became fascinated by trading in difficult markets and branched off on their own. They are found by word of mouth, but the chances are they once worked for a company in the

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☐ DEBT RECOVERY: **CHASING THE LATE PAYERS**

Start with a sweet smile

Alan Spence reviews the numerous options, besides going to law, available to suppliers worried about possible non-payment of bills

Delayed or lost payments are now a common feature of recession-hit international trade. Infuriating, but usually manageable for major corporations, they can nevertheless pose serious problems for small-to-medium-sized companies (SMEs).

A delay or a loss too many for an already heavily-indebted SME could push it over the edge if its bankers finally take fright.

Given the availability of instruments to help secure payment and indemnify exporters against losses – ranging from various types of letters of credit and export credit insurance to specialist collection and funding services, such as those offered by factoring companies – companies should, at least in theory, be well-protected against delays and losses.

In practice, however, this is often not the case. Protection comes at a cost, which many exporters are not prepared to pay, especially if recession is already squeezing profit margins.

Some exporters are simply unaware of the types of security available; others argue that in addition to costs, they impose other constraints – factoring companies may take up valuable exporting time deciding on a buyer's credit worthiness; claiming on a credit insurance policy may be viewed as a time-consuming and lengthy process.

Whether there is merit in their arguments or not, the result is that many exporters finish up with delayed or even delinquent payments as a result of unprotected open account trading. At that point there is no going back to credit insurance companies or, for example, factoring companies or invoice discounters.

Lombard Natwest, which provides both factoring and invoice discounting services, says that under no circumstances would it provide a collection or discounting service for debts which are overdue. As is the case with providers of similar services, David Kilburn, marketing manager, stresses that exporters seeking factoring or invoice discounting services must establish their requirements prior to exporting, thus allowing Lombard Natwest the opportunity of assessing buyer risk.

So what are their options in terms of taking steps to secure eventual payment and protect cashflow? James Fairrie, manager, banks and exports, at UK credit insurer Trade Indemnity, advises that companies caught with unprotected debts should initially examine the possibility of gently mobilising personal contacts within or associated with the buyer organisation.

"Very often the major non-paying culprits are the bigger companies and the sufferers are the smaller companies. They are in a weak position to rattle the sabre; if the big company feels it's getting hassled, it may merely further delay payment and go elsewhere for future supplies", Mr Fairrie adds.

"Make use of personal contacts, make use of friendships, contact other suppliers to the same client and try to enlist their help." Mr Fairrie also suggests that the exporter should consider requesting part payment. He cautions against applying legal pressure at an early stage. "The last thing to do is go to a lawyer. It's expensive, you have little direct control over what the lawyer might say and it could upset future relations with the buyer."

However, he does advise the exporter to discuss the situation with its banks with a view to the latter applying gentle pressure. "If the bank is helpful, then it could send a letter to the buyer pointing out that its client is expecting funds and enquiring whether payment has been made or perhaps inadvertently misdirected. Depending on the bank's international presence, the buyer may take such a letter to be a potential reflection on its overall credit rating if news of its slow payment spreads around the banking community – and pay up."

A more usual alternative may be for the exporter's bank to approach his client's customer's bank in a similar manner designed to create a similar effect. At this point the exporter is probably beginning to risk upsetting future relations with the buyer and must take a view on the outlook for the latter's future custom and balance it against current cashflow considerations.

If the exporter decides to apply more pressure it could, for example, harness the help of a specialist debt collection service such as Trade Indemnity Collections or Graydon International. Trade Indemnity Collections will seek payment on quasi-delinquent corporate debts – usually defined as debts more than 180 days overdue – at costs ranging between one and five per cent of the recovered amount, though it can be higher, depending on the time and the amount involved and the country.

The exporter is also liable for additional legal expenses. According to Graydon International, chasing unpaid debts is a common problem – even for larger companies. Charges vary according to the value and location, but normal commissions would usually amount to between 10 and 15 per cent of the amount recovered. If Graydon needs to use local agents, that could involve a lot more expense for the exporter – perhaps up to a further 10-20 per cent of the recovered amount, depending on the country.

Again, incurred legal expenses will be additionally applied. In the event of non-recoveries by collection services a handling charge is common. Finally, there is the pure legal option – litigation. Given the expense involved, this approach may only be viable for larger companies with substantial debts.

Selecting which law firm to use can be important. Some specialise in certain markets, such as, for example, London-based solicitors Hartwig in Germany where it is

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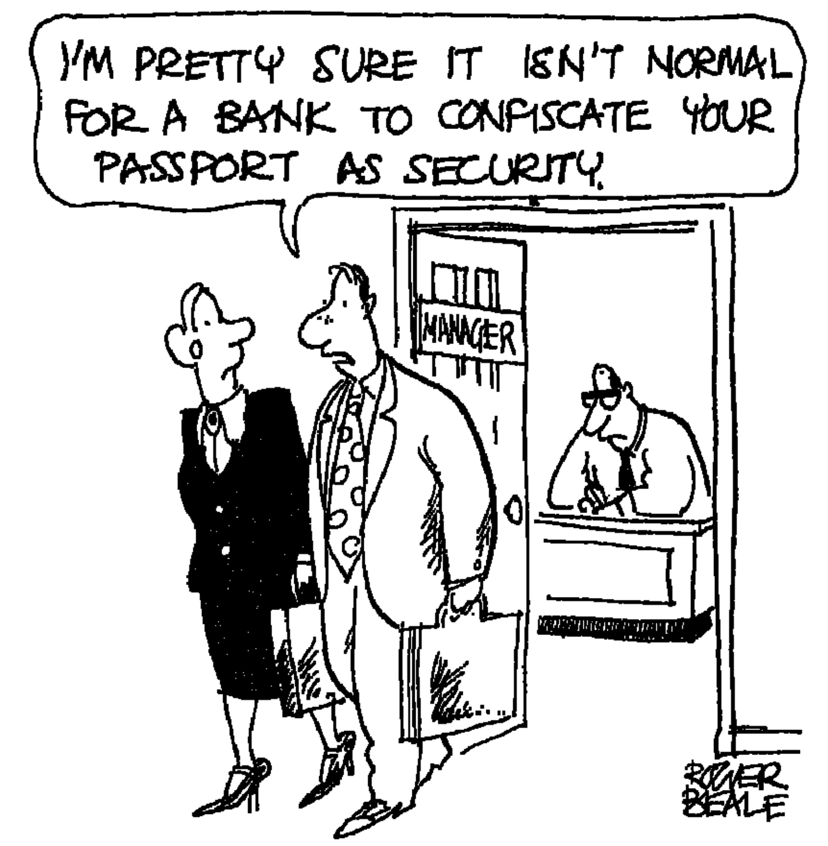

☐ BANK WATCH: **UNITED KINGDOM**

Small firms air their woes

Rod McNeill talks to small and medium-size exporters who complain of slow or inadequate backing from their banks, and to banks who view the matter differently, but say that changes are afoot

Small and medium-sized UK companies looking to boost exports point to continuing obstacles and hidden costs in securing assistance from banks.

John Sweet, chairman of Semitron Industries, a Swindon-based manufacturer of semiconductors looking to step up exports to the Far East and Europe, says "on the whole, the banks have not been terribly interested".

He adds: "It took us five weeks to get clearance on [a factored] account in Italy – the customer was one of the biggest telecommunications companies in Italy. While you are waiting, the product is sitting on the shelf waiting to be shipped."

For Mr Sweet, the banks do not help ease small companies' concerns over international payments. "We are spending so much time as the business expands chasing around making sure we get paid."

Sonix, Cirencester-based designer and manufacturer of data communications equipment formed 18 months ago with venture capital backing from Schroders and Boston-based Greylock Management, illustrates the challenges facing even successful start-up ventures.

The company, which expects sales of £5m for the year to March 1994, a 10-fold increase on first year sales, is about to launch an aggressive export campaign across western Europe which it hopes will boost sales to £9m by March, 1995.

Bob Jones, founder and managing director, highlights several difficulties with the banks: "We look for normal banking facilities, such as money transfer and cheque clearance. But obviously we look for a lot more. However, the banks are indifferent towards exporting."

He adds: "The banks look for the ultimate in security these days. They are very good up to the point where they actually have to take risks."

Factoring invoices is often the only route for start-up companies looking for flexible funding, but there are hidden costs. "Inevitably, because of the hassle factor, companies do not apply themselves with the same vigour to collecting international debt as they do in the UK", believes Mr Jones. Furthermore, some factoring companies reduce the amount companies can draw down against factored international debts unless the debts are covered by export credit insurance.

According to Mr Jones: "If we factor a foreign invoice, the factoring company insists that we insure it through export credit insurance – so there is an extra cost and penalty to us. So the factoring company is almost admitting that it is going to have problems collecting the debt.

"Not only are we not being encouraged to export but we are also being hindered by factoring companies making it more difficult for us to export."

On the question of export credit insurance, the director of one factoring company comments: "It is not in our nature to insist. We recommend they do insure open-account debt, that is, exports without the backing of letters of credit or bank guarantees."

Meanwhile, UK banks scored poorly in a recently completed survey by Coopers and Lybrand. Roger White, one of the leaders of the survey team, says: "The two big issues companies face are late payments and export credit insurance, which is expensive and hard to get, but assistance to exporters is still a problem and nobody seems to come out particularly well, including the banks.

"It is hard work for small and medium-sized enterprises and there is a major opportunity for the banks to help those businesses, but at the moment they do not seem to be very forthcoming."

The banks refute such criticisms yet admit that changes are afoot. Kevin Jennings, NatWest's Director of Commercial Banking Services, says: "If there is a credible business plan, the finance is there in various formats. We have no doubt that many more of our customers could get their products into overseas markets.

"In fact, in 1994 we shall be approaching all commercial customers – especially our medium-sized businesses – with a checklist of key criteria to help them consider whether they could and should start to export their products."

COUNTERTRADE

FT Exporter writers investigate countertrade and bartering in the post-Communist era **pages 12-16**

Ensure the goods are not rubbish

Krystyna Krzyzak offers some advice to small and medium companies contemplating a move into countertrading

The publicity generated by large military offset and oil barter deals often gives the impression that countertrading is the preserve of multinationals and governments. But small and medium sized companies (SMEs) that export into certain regions may also be offered products or commodities, usually bearing no relation to their business, in lieu of cash.

For certain export markets, notably the former Soviet Union, a lack of hard currency may make countertrade inevitable. A number of newly industrialised countries such as Indonesia, Malaysia and Philippines, use countertrade as a means of increasing their own export markets.

Either way, the SME's willingness to countertrade may make the difference between winning or losing an export contract. Colin Heritage, director of Stemcor Trade Finance, a London-based specialist financial services company focusing on barter and countertrade services, believes that countertrade is both more practicable and more likely to succeed if approached as a means of trade promotion rather than trade finance. "Offer to help the importer sell its products into the West, but get its bank to provide the necessary letters of credit and guarantees," Mr Heritage advises. "But the performance of each contract must be kept separate."

This type of initiative can give a company a competitive edge because it can generate additional foreign exchange for the importer's country. However, it is just as likely that the exporter will be offered goods with which it is totally unfamiliar.

How an SME approaches this type of transaction can decide whether it comes out with a profit. If countertrade, including something as conceptually simple as barter, was ever straightforward, money would never have been invented. The pitfalls fall broadly into two groups.

The first concerns the goods taken in lieu of payment. Is the quality high enough, and if not, who is liable when they are on-sold? Are they subject to a quota agreement, in which case where is the recipient going to sell them? Will the official body responsible for the commodity give permission for the goods to be part of the transaction and at what price? If an exporter sells these unfamiliar goods to a trading house, how can it be sure that it will get a fair price?

The second group of problems concerns the standard payment risk associated with exporting which countertrade magnifies. Government export credit agencies take differing views on insuring the countertrade leg of a deal, but no agency will cover the risk of unsaleable goods.

The private insurance market, meanwhile, has scaled down its capacity. It is feasible for SMEs to arrange their own countertrade transactions – if it is a fairly straightforward counterpurchase deal and the company obeys the golden rule of keeping the two sides of the contract separate and ensures that the counterparty delivers its goods first. Few transactions are that simple, and not many counterparties that obliging. The do-it-yourself approach also can incur escalating trading costs. The exporter may well be offered a commodity that is in oversupply which it will then have to sell at a discount – the disagio, which may be as high as 25 per cent – into the market.

This is the point at which many DIY deals turn sour, notes Alan Linger, assistant general manager at Standard Bank London and secretary of the London Countertrade Round Table. "Companies find that they can't afford to sell the countertraded product at the price they need, and they can't afford to absorb the disagio," Mr Linger notes.

This highlights another rule for successful countertrading by SMEs: keep the cost of the arrangement of the transaction and the subsidy separate. "In a lot of countertrade deals the company may not even know at the beginning which goods will be offered, so they should agree the arrangement fees and leave the decision on subsidy costs open until later as part of the negotiating process for the products being offered," counsels Mr Heritage of Stemcor.

Most smaller companies are best advised to seek help, preferably at the beginning before the costs start escalating. Clearing banks are not now very interested in arranging smaller transactions – nor are many trading companies – although they can provide the payment mechanisms. There are, however, specialists who can tie together the financing and trading legs. Nigel Adams of Adams and Co, a Daventry-based countertrade consultant specialising in Eastern Europe and the former Soviet Union, believes that the consultant's role has additional advantages for the exporter. These include the exporter maintaining direct contact with the customer, which would not be the case if the transaction was passed to a countertrade house, and a customised service from the consultant which has a vested interest in ensuring that the deal is profitable.

There are also a small number of specialist houses offering one-stop shopping such as New York-based GreficoMees, a joint venture between the Dutch bank Mees Pierson and the French countertrade specialist Greficomex. Many of the venture's customers are SMEs, according to Neil Caplan, the company's president. The company can provide switch agreements for exporters and importers, obviating the need for hard currency.

However, where the importer cannot come up with the necessary confirmed letters of credit or bank guarantees, it can arrange pre-export finance against a suitable guarantee from the exporter.

Softly, softly with late payers

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highly experienced at pressing for payment through local courts. But suing a company outside its local courts may be a more practical option in certain cases.

Take the case of an unpaid bill in Iran. Roger Baggallay, of London-based law firm Clifford Chance, says that priority should be given to suing the client outside the Iranian courts. The main procedure would be to try to go after any assets outside the buyer's own country. The legal option, on the other hand, may only produce a big bill. In either event, it will probably curtail future dealings between exporter and client.

☐ *Alan Spence is editor of International Trade Finance, a fortnightly newsletter published by FT Business Enterprises*